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United Nations

Fund of the United Nations International Drug Control Programme

Financial report and audited financial statements

for the biennium ended 31 December 2003 and

Report of the Board of Auditors

General Assembly
Official Records
Fifty-ninth Session
Supplement No. 5I (A/59/5/Add.9)

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Report of the Board of Auditors

United Nations • New York, 2004

2 August 2004

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7 May 2004

In accordance with financial regulation 11.4 of the United Nations and financial rule 15.3 of the Fund of the United Nations International Drug Control Programme, I have the honour to submit the financial statements of the Fund of the United Nations International Drug Control Programme for the biennium 2002-2003 ended 31 December 2003.

Copies of these financial statements are made available to the Commission on Narcotic Drugs and the Advisory Committee on Administrative and Budgetary Questions.

(*Signed*) Antonio Maria **Costa**
Executive Director
United Nations Office on Drugs and Crime

The Chairman of the Board of Auditors
United Nations
New York

9 July 2004

I have the honour to transmit to you the financial statements of the Fund of the United Nations International Drug Control Programme for the biennium ended 31 December 2003, which were submitted by the Executive Director. These statements have been examined by the Board of Auditors.

In addition, I have the honour to present the report of the Board of Auditors with respect to the above accounts, including an audit opinion thereon.

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa
and Chairman
United Nations Board of Auditors

The President of the General Assembly
of the United Nations
New York

Chapter I

Report of the Executive Director

1. The Executive Director has the honour to submit the financial statements of the Fund of the United Nations International Drug Control Programme (UNDCP) for the biennium 2002-2003, in accordance with rule 15.3 of the financial rules of the Programme and General Assembly resolution 46/185 C of 20 December 1991.

Financial position

2. The biennium 2002-2003 showed an improvement in the financial position of the Fund, with a marked turnaround in 2003. A summary showing income, expenditure and fund balances since the inception of the Fund in 1992 is presented in table 1 below. Income is received under two main categories, namely, general-purpose or untied funds and special-purpose or tied funds. Table 1 compares income with expenditure under each funding category and shows the resultant fund balance by adding to or deducting net income or expenditure from the unspent balance of the previous year. Increased support from Member States is reflected in the upward income trend for 2002 and 2003 and, in particular, in increased general-purpose funding. With general-purpose expenditure brought under control from mid-2002 onwards, the previous depletion of the general-purpose fund was reversed in 2003. However, special-purpose expenditure did not keep pace with income in 2002, resulting in an increase in the fund balance of $8.5 million (20 per cent) during the biennium 2002-2003. The reasons for that increase will be carefully analysed through a detailed, project-by-project breakdown of the $52.1 million total special-purpose fund balance at the end of 2003. Based on that analysis and taking into account the need to maintain adequate project liquidity, measures will be taken to expedite utilization of unspent funds through improved project delivery and better redeployment or return to donors of funds found surplus to requirements. The performance of both fund categories is explained further below.

Table 1

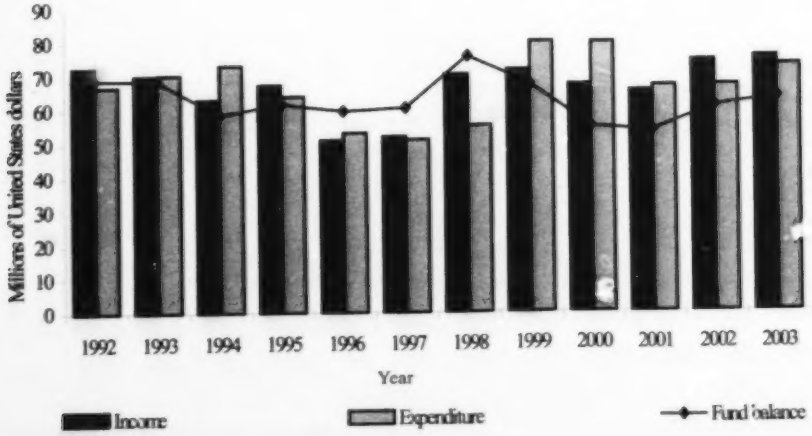
Fund of the United Nations International Drug Control Programme: income, expenditure and fund balance, 1992-2003

(Millions of United States dollars)

	1992	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*
Income[a]												
General-purpose	20.2	34.3	19.0	18.3	19.7	17.2	17.1	16.5	18.1	13.2	15.0	18.4
Special-purpose	52.3	35.8	44.1	49.1	31.3	34.8	53.2	55.1	49.2	52.2	59.1	56.8
Total	**72.5**	**70.1**	**63.1**	**67.4**	**51.0**	**52.0**	**70.3**	**71.6**	**67.3**	**65.4**	**74.1**	**75.2**
Expenditure[b]												
General-purpose	18.4	18.7	22.2	22.2	20.0	18.5	20.3	24.1	22.0	20.4	16.3	15.9
Special-purpose	48.5	51.7	51.0	41.9	33.2	32.6	34.8	55.9	57.8	46.4	50.6	56.8
Total	**66.9**	**70.4**	**73.2**	**64.1**	**53.2**	**51.1**	**55.1**	**80.0**	**79.8**	**66.8**	**66.9**	**72.7**
Fund balance												
General-purpose	24.8	40.4	37.2	33.3	33.0	31.7	28.5	20.9	17.0	9.8	8.5	11.0
Special-purpose	44.1	28.2	21.3	28.5	26.6	28.8	47.2	46.4	37.8	43.6	52.1	52.1
Total	**68.9**	**68.6**	**58.5**	**61.8**	**59.6**	**60.5**	**75.7**	**67.3**	**54.8**	**53.4**	**60.6**	**63.1**

[a] Adjusted for refunds to donors and from 2002 adjusted to a cash basis for all contributions.

[b] Includes adjustments for prior-year expenditures/obligations and provisions.



General-purpose funds

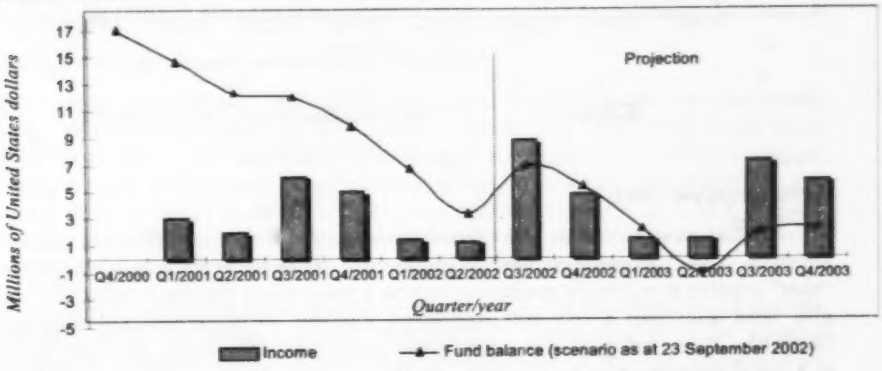
3. General-purpose funds are untied voluntary contributions required to fund the support budget and to provide programme flexibility by allowing investment in those priority areas which do not, have not yet or are not likely to attract special-purpose (tied or earmarked) contributions. A fund balance of around $15 million is necessary to meet expenditures in the first half of each year, as most contributions come in during the second half of the year.

4. As shown in figure I, the general-purpose fund balance, which stood at $17 million at the start of 2001, declined sharply through 2001 and the first two quarters of 2002 as expenditure exceeded income. By mid-2002 the fund balance had declined to below $5 million and projections into 2003 showed that the fund was in danger of bankruptcy.

Figure I

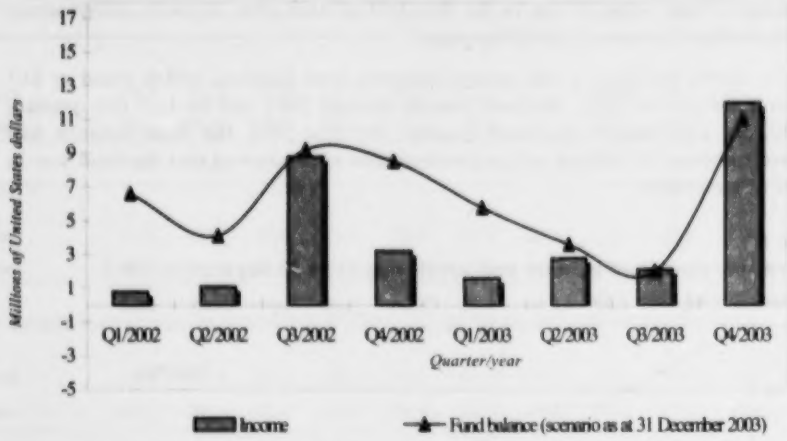
General-purpose fund balance and projection as at 23 September 2002

(Millions of United States dollars)



5. With the assistance of Member States who were alerted to this danger in August 2002, a number of immediate actions were taken to avert a financial crisis. By December 2002, the general-purpose fund balance had been restored to $8.5 million. As a result of continuing efforts at good governance during the biennium 2002-2003, general-purpose income increased from a low of $13.2 million in 2001 to $15 million in 2002 and to $18.4 million in 2003, representing a 40 per cent improvement in two years over 2001. Increased general-purpose income, coupled with cost-saving measures introduced from mid-2002 onwards, resulted in the further rebuilding of the balance to $11 million by the end of 2003. Figure II depicts the actual trend of the general-purpose income and fund balance.

Figure II
General-purpose fund balance as at 31 December 2003
(Millions of United States dollars)



Special-purpose funds

6. Special-purpose funds are funds earmarked to specific projects and/or activities. The earmarking of funds is either "soft" relative to a region or theme or "hard" relative to a specific project or even to a budget line. Currently, most donors give hard and only a few soft earmarked funding, which limits programming flexibility. This constraint, along with other operational difficulties, can contribute to a lower delivery rate. To illustrate, programme expenditure, as shown in table 4 below, declined from $61.5 million in 2000 to $48.7 million in 2001 and to $47.5 million in 2002. On the other hand, special-purpose income, with most of it hard-earmarked, increased from $49.2 million in 2000 to $52.2 million in 2001 and to $59.1 million in 2002 (see table 1). In 2003, however, programme expenditure rose to $54.8 million (a 15 per cent increase over 2002), while special-purpose income dropped to $56.8 million (a 4 per cent decline over 2002).

Overview of budget performance

7. Table 2 below provides a comparison between:

(a) The budget revised in November 2002 and approved by the Commission on Narcotic Drugs in April 2003;

(b) The final budget based on actual expenditures for 18 months and estimates for the last 6 months of 2003 (as approved by the Commission in November 2003);

(c) The actual expenditure as reported in the financial statements.

Further analysis of budget and expenditure variances is provided below in schedules 2 and 4.

Table 2
Budget performance, 2002-2003
(Millions of United States dollars)

Item	*Revised budget 2002-2003 a*	*Final budget 2002-2003 b*	*Expenditure 2002-2003 c*	*Implementation rate d=(c/bx100) (percentage)*
A. Programme budget				
Core programme	10.0	10.3	10.0	97
Technical cooperation programme	122.0	96.0	92.3	96
Total programme budget	**132.0**	**106.3**	**102.3**	**96**
B. Support budget	32.4	35.4	33.0	93
C. Agency support costs	2.0	2.5	2.6	104
Total	**166.4**	**144.2**	**137.9**	**96**

Overview of operational performance 2002-2003

8. During the biennium 2002-2003, operational activities under the programme budget recorded expenditure of $102.3 million as compared with $112.1 million in 2000-2001. This 9 per cent biennial decrease is attributable to weak performance during the year 2002, a year of management transition in which annual delivery fell below trend to $47.5 million. In 2003, expenditures increased to $54.8 million, representing a 15 per cent increase over 2002. Improved performance coincided with extensive management reforms started in mid-2002 and continued in 2003.

9. Between 2002 and 2003, growth in expenditure was registered in all regions except Central and Eastern Europe (see table 3). Consistent with the priority assigned by Member States to Africa, that region posted a 59 per cent increase, from $3.4 million in 2002 to $5.4 million in 2003. Year-on-year delivery increased 19 per cent in Asia (South and East Asia and the Pacific), owing mainly to the expansion of alternative development projects in the Lao People's Democratic Republic and Myanmar. Central and West Asia grew by 20 per cent with the launching in 2003 of large-scale law enforcement projects in Afghanistan and neighbouring countries. In Central and Eastern Europe, the 14 per cent decrease was due mainly to the completion of the $6 million joint UNDCP/Phare programme on counter-narcotics enforcement in the region between 1999 and 2002, with no new projects of comparable size starting in 2003. Funding gaps in the stock of ongoing Andean alternative development projects explain the small (3 per cent) increase in delivery in Latin America and the Caribbean. Global projects and core programmes posted a 45 per cent increase as a result of mandated activities in the areas of drug research and supply and demand reduction policy support. Figures III and IV show operational activities by region for 2002 and 2003, respectively.

Figure III
Operational activities in all regions, 2002
(Millions of United States dollars and percentage share)

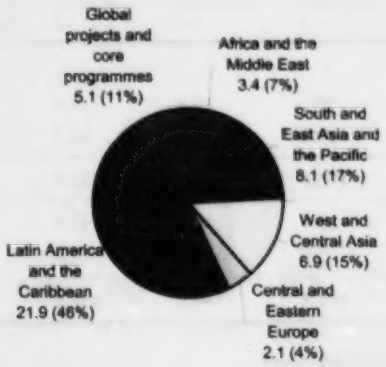

Global projects and core programmes 5.1 (11%)
Africa and the Middle East 3.4 (7%)
South and East Asia and the Pacific 8.1 (17%)
West and Central Asia 6.9 (15%)
Central and Eastern Europe 2.1 (4%)
Latin America and the Caribbean 21.9 (46%)

Figure IV
Operational activities in all regions, 2003
(Millions of United States dollars and percentage share)

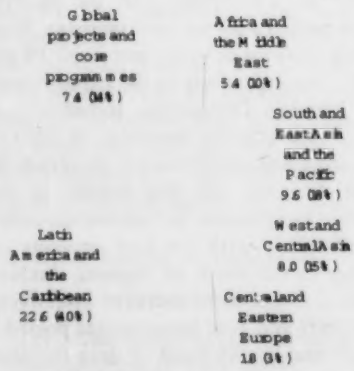

Global projects and core programmes 7.4 (14%)
Africa and the Middle East 5.4 (10%)
South and East Asia and the Pacific 9.6 (18%)
West and Central Asia 8.0 (15%)
Central and Eastern Europe 1.8 (3%)
Latin America and the Caribbean 22.6 (40%)

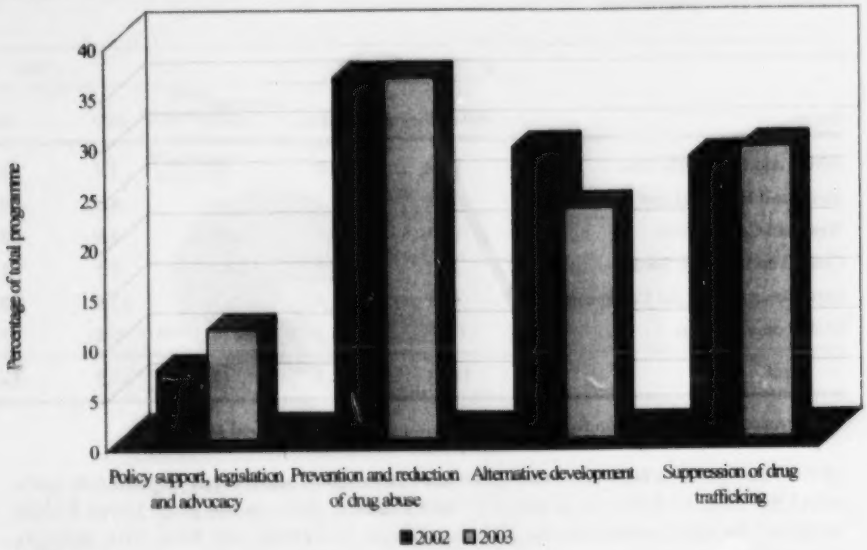
Table 3
Operational activities expenditure: all regions, 2000-2003
(Millions of United States dollars)

Region	Biennium			Year		
	2000-2001	2002-2003	Percentage change	2002	2003	Percentage change
Africa and the Middle East	5.4	8.8	63	3.4	5.4	59
South and East Asia and the Pacific	17.1	17.7	4	8.1	9.6	19
West and Central Asia	20.1	14.9	(26)	6.9	8.0	20
Central and Eastern Europe	7.1	3.9	(45)	2.1	1.8	(14)
Latin America and the Caribbean	45.9	44.5	(3)	21.9	22.6	3
Global core projects	16.5[a]	12.5	(24)	5.1	7.4	45
Total	**112.1**	**102.3**	**(9)**	**47.5**	**54.8**	**15**

[a] Increased by $1.8 million for core expenditure previously classified as support.

10. A comparison between 2000-2001 and 2002-2003 shows that expenditure grew by 63 per cent in Africa as a result of an increased share in the programme budget requested by the Commission on Narcotic Drugs. In Central and West Asia, delivery dropped 26 per cent as a result of the completion in 2001 of a large-scale alternative development project in Pakistan and difficult operational conditions causing project slippages in 2002 and early 2003. Expenditure in Asia (South and East Asia and the Pacific) grew 4 per cent owing mainly to increased alternative development delivery in the Lao People's Democratic Republic and Myanmar and to new subregional activities in States members of the Association of Southeast Asian Nations (ASEAN) and China under the ASEAN and China Cooperative Operations in Response to Dangerous Drugs (ACCORD) Plan of Action. In Central and Eastern Europe, expenditure dropped owing to the completion of the $6 million joint UNDCP/Phare programme on counter-narcotics enforcement. In Latin America and the Caribbean, the completion of many alternative development projects and funding gaps for new ones explain the 3 per cent drop in expenditure.

Figure V
Programme by thematic areas, 2002 and 2003



11. The thematic structure of operational activities posted relatively small but important variations between the years 2002 and 2003 (see figure V). As a proportion of the overall operational portfolio, activities to suppress drug trafficking increased from 28 per cent in 2002 to 30 per cent in 2003. Whereas drug law enforcement activities, which fall under the thematic area of suppression of drug trafficking, remained stable in most regions between 2002 and 2003, the variance is attributable for the most part to increases under projects in Brazil to upgrade drug law enforcement training centres and to expand precursor control. Policy support, the development of legislation and anti-drug advocacy rose 4 per cent in terms of volume, owing mainly to the increased provision of such services in Afghanistan, Africa and Central Asia.

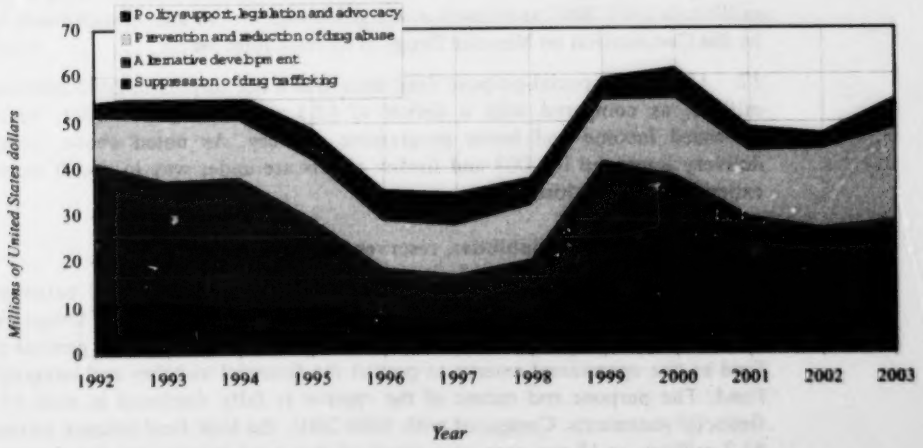
12. Table 4 presents a historical summary by sector. Drug demand reduction activities rose as a share of the overall operational portfolio and also in absolute terms, from $17 million in 2002 to $20 million in 2003. However, over 50 per cent of the demand reduction portfolio is made up of a single project in Brazil (drug abuse and prevention of the human immunodeficiency virus (HIV) and acquired immunodeficiency syndrome (AIDS)). Allowing for the marked variations that do exist among both donors and assisted countries, drug demand reduction activities in general are not assigned high priority. This situation, in turn, seriously restricts the capacity of the United Nations Office on Drugs and Crime to assist Member States in the production of reliable drug abuse data and in the development of best practice advice and model projects for demand reduction.

13. Alternative development expenditures in 2003 fell to $12.8 million from $13.6 million in 2002. A welcome increase in Myanmar in 2003 was offset by below-trend delivery in the Andean region, owing to funding gaps experienced under ongoing

pilot projects launched in Bolivia and Peru during the late 1990s. This reduced capacity to deliver planned alternative development programmes has two negative consequences. Firstly, it affects the role the United Nations Office on Drugs and Crime can play under an increasingly accepted division of labour with Governments and mainstream rural development organizations. Drawing on its experience and global reach, the Office is best placed to perform a catalytic function through pilot projects and provision of advice on best practices. The Office does not have the resources to engage in the geographical expansion and replication of viable models, which is best performed by entities concerned more broadly with rural development. Secondly, it coincides with a 22 per cent decline in the surface under illicit coca cultivation in the Andean region and a 20 per cent decrease in the cultivation of opium poppy in the Golden Triangle region, to their lowest levels in over a decade. Maintaining the pace of eradication of illicit crops and preventing a reversal of this encouraging trend are contingent on the provision of alternative livelihood schemes to former illicit crop farmers.

Table 4
Programme by thematic areas, 1992-2003
(Millions of United States dollars, net of support costs)

Sector	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*
Policy support, legislation and advocacy	3.3	5.4	5.6	6.8	6.7	7.2	6.1	5.0	6.6	5.3	3.5	6.2
Prevention and reduction of drug abuse	10.0	13.2	12.2	12.7	10.3	10.4	11.6	12.8	16.7	14.2	17.0	20.0
Alternative development	30.0	26.1	28.3	19.4	10.3	10.3	12.2	21.8	17.9	11.1	13.6	12.8
Suppression of drug trafficking	11.3	11.2	10.0	9.9	8.1	6.8	8.1	19.7	20.3	18.1	13.4	15.8
Total	**54.6**	**55.9**	**56.1**	**48.8**	**35.4**	**34.7**	**38.0**	**59.3**	**61.5**	**48.7**	**47.5**	**54.8**



Regular budget resources

14. In addition to the Fund, the work of the drug programme in the United Nations Office on Drugs and Crime is financed under the regular programme budget of the United Nations with a total expenditure of $18 million during the biennium 2002-2003 as compared with $14.4 million in 2000-2001, representing a 25 per cent increase (see note 4 below). Whereas the Fund supports technical cooperation programmes in international drug control, the regular budget mostly funds treaty implementation and legal affairs. The Fund accounted for approximately 89 per cent of resources available to the drug programme of the Office in 2002-2003, compared with approximately 11 per cent covered under the regular budget of the United Nations.

Statement I. Income, expenditure and changes in fund balances

15. As shown in statement I, total income increased by $19 million (14 per cent) compared with the biennium 2000-2001. Total expenditure, however, decreased by $9.1 million (6 per cent) over 2000-2001.Voluntary contributions increased in 2002-2003 by $20.4 million (22 per cent) compared with 2000-2001. Both special-purpose (earmarked) and general-purpose (non-earmarked) contributions increased in 2002-2003, by $15.9 million and $4.5 million respectively, as compared with 2000-2001. This was offset by a decrease of $4.5 million (47 per cent) in interest income because of reduced interest rates.

16. General-purpose expenditures were carefully controlled during 2002-2003. In 2000-2001 support budget expenditure was reported at $33.2 million. In order to compare this with expenditure in 2002-2003, it needs to be reduced by $1.8 million for core posts now shown under the programme budget. Therefore, on a comparative basis, support budget expenditure increased from $31.4 million in 2000-2001 to $33 million in 2002-2003 — a 5 per cent increase due mainly to salary increases authorized by the General Assembly in its resolution 57/285 of 20 December 2002. Programme expenditure from general-purpose funds was, however, substantially curtailed. When adjusted by $1.8 million for core posts, programme expenditure from general-purpose funds fell from $17.3 million in 2000-2001 to only $4.8 million in 2002-2003 as a result of the guidelines on the use of such funds adopted by the Commission on Narcotic Drugs in its resolution 44/20.

17. Under the special-purpose fund there was a net surplus in 2002-2003 of $11.3 million, as compared with a deficit of $2.1 million in 2000-2001, because of increased income and lower programme delivery. As noted above, programme delivery improved in 2003 and further efforts are under way to match income and expenditure more closely.

Statement II. Assets, liabilities, reserves and fund balances

18. Statement II shows the assets, liabilities, reserves and fund balances as at 31 December 2003. As authorized by the Commission on Narcotic Drugs, reserves have been established at $12 million and consolidated under the general-purpose fund as one operational reserve to protect the financial viability and integrity of the Fund. The purpose and nature of the reserve is fully disclosed in note 17 to the financial statements. Compared with 2000-2001, the total fund balance increased by $9.7 million, or 18 per cent, as a result of increased income and lower programme delivery. While the increase in the special-purpose fund balance was checked in

2003, further reductions through improved delivery and careful fund management will be attempted in 2004-2005. The continued rebuilding of the general-purpose fund balance is, however, essential to restoring full financial stability by covering operating requirements of around $15 million from this fund balance.

Statement III. Cash flow

19. Cash flow remained positive during 2002-2003 as both operating and investing activities produced a surplus compared with the huge outflows in 2000-2001. This resulted from both increased donor support and control over expenditure. Despite larger refunds to donors and more provisioning for suspense items, there was a net increase in cash of $4.5 million in 2002-2003 as compared with a $31.5 million reduction in cash in 2000-2001.

Schedules

20. The financial statements are supported by five schedules.

Schedule 1

21. Schedule 1 shows the status of voluntary and cost-sharing contributions by donor. Income, which is recognized on a cash basis, is shown alongside the status of pledges to give a complete view of contributions by donor. Total unpaid voluntary pledges increased by $16.8 million as new pledges exceeded collections by $13.1 million and because of an exchange rate revaluation of $3.7 million that was due mainly to the strengthening of the euro in relation to the United States dollar. Outstanding cost-sharing pledges decreased by $6.3 million as collections exceeded new pledges in 2002-2003.

Schedule 2

22. Schedule 2 shows the status of the final programme budget as approved by the Commission on Narcotic Drugs with expenditure broken down between general- and special-purpose funds. However, in order to further assess budget implementation, table 5 provides a summary of expected and actual implementation rates by sector and region.

Table 5
Programme budget and expenditure, 2002-2003
(Millions of United States dollars)

Item	*Revised budget 2002-2003 a*	*Final budget 2002-2003 b*	*Expenditure 2002-2003 c*	*Implementation rate d=(c/bx100) (percentage*
By sector				
A. Core programme				
1. Global challenges				
Prevention and reduction of drug abuse	1.6	1.8	1.7	98
Monitoring of illicit crops	0.4	0.6	0.6	100
2. Anti-trafficking				
Suppression of drug trafficking	1.3	0.8	0.7	96
3. Rule of law				
Anti-money-laundering	2.6	2.5	2.2	86
Other core work (cross-cutting)[a]	4.1	4.6	4.7	102
Total, core programme	**10.0**	**10.3**	**10.0**	**97**
B. Technical cooperation programme				
1. Global challenges				
Prevention and reduction of drug abuse	40.3	30.6	35.3	116
Monitoring of illicit crops	-	0.5	0.5	100
Alternative development	32.9	23.8	26.4	111
2. Anti-trafficking				
Suppression of illicit trafficking	48.7	41.1	30.0	73
Total, technical cooperation	**122.0**	**96.0**	**92.3**	**96**
By region				
B. Technical cooperation programme				
Global	3.5	3.1	2.5	82
Africa and the Middle East	15.3	8.7	8.8	102
Central and Eastern Europe	3.1	4.4	3.9	89
West and Central Asia	23.0	15.3	14.9	98
East Asia and the Pacific	24.3	17.3	16.1	93
South Asia	1.7	1.9	1.5	82
Latin America and the Caribbean	51.0	45.4	44.5	98
Total, technical cooperation	**122.0**	**96.0**	**92.3**	**96**

[a] Research and analysis, laboratory and scientific services, legal advisory services, advocacy and information technology.

Core programme

23. The core programme covers functions that are legislatively mandated, ongoing and global in range, covering, for example, legal advisory services, anti-money-laundering activities and trend analysis. It has a high implementation rate because of its high salary content as posts are required to implement mandated, ongoing activities at headquarters. Some of the final budgets, however, were exceeded because additional and unforeseen funding became available for projects GLO-B79 (Global Programme against Money-Laundering), GLO-G32 (Drug abuse and HIV/AIDS prevention), GLO-C93 (Programme support for the monitoring of illicit crops), GLO-B90 (UNDCP image-building) and GLO-E12 (Provision of electronic information services to Member States).

Technical cooperation programme

24. Implementation rates for technical cooperation projects have historically averaged over 90 per cent against the final budget and, as table 5 demonstrates, this was achieved during the period under review. However, regional variations arise from a mix of different project portfolios, operating conditions and funding and implementing modalities. Thematically, some of the major variances in implementation rates can be explained as follows:

(a) *Global challenges: prevention and reduction of drug abuse.* Expenditures were higher than expected by $4.7 million as compared with the final budget. Significant reasons for this variance are as follows: two new projects, in Afghanistan (AFG-H09: Capacity-building for drug demand reduction in Afghanistan) and Nigeria (NIR-G73: Upgrading of the National Drug Law Enforcement Agency Academy in Jos to a Regional Training Centre), could be started earlier than expected because funding became available. For the Brazil project BRA-E02 (Drug abuse and HIV/AIDS prevention project) the cost-sharing contribution from the Government of Brazil was received late in the year and major activities could be implemented over and above the estimates established at the time of the preparation of the budget. The slow start-up for project RAS-H13 (Prevention of transmission of HIV among drug users in the countries of the South Asian Association for Regional Cooperation) resulted in a lower implementation than was expected and mechanisms are being put in place at the United Nations Office on Drugs and Crime regional office in India to reach maximum implementation during the biennium 2004-2005. For project IRA-E52 (Drug abuse reduction unified strategy for the Islamic Republic of Iran), the Government's absorption capacity resulted in slight underimplementation as compared with the final 2003 allotment issued on 4 December 2003;

(b) *Global challenges: alternative development.* Expenditures were higher by $2.6 million compared with the final budget. Significant reasons for this variance are as follows: additional funding — not foreseen at the time of the preparation of the final budget for 2002-2003 — became available for projects in Bolivia, Myanmar and Peru. For project COL-F31 (Promotion of cattle-breeding in support of the alternative development plan in Colombia), which was operationally closed at the end of 2003, the donor priority changed and remaining funds were redeployed to three other projects in Colombia;

(c) *Anti-trafficking: suppression of drug trafficking.* Expenditures were lower by $11.1 million as compared with the final budget. Significant reasons for

this variance are as follows: the largest portion of underexpenditure was in Brazil, where the low implementation rate for law enforcement projects is related to the strong devaluation of the Brazilian currency, the delay in receiving the cost-sharing contributions as well as unfavourable institutional conditions. The absorption capacity of the Government in implementing project LIB-F71 (Strengthening the national and legal institutional capacity of the Government of the Libyan Arab Jamahiriya through multisectoral drug control assistance) appeared to be below that anticipated. With regard to project RAS-F73 (Regional cooperative mechanism to monitor and execute the ACCORD Plan of Action) the severe acute respiratory syndrome (SARS) epidemic in the region hampered implementation of some of the components. For project IRA-E51 (Combined unified interdiction strategy for the Islamic Republic of Iran) some problems occurred with the specifications for the purchase of law enforcement equipment, resulting in delayed implementation of the activities. The security situation in the border area between Afghanistan and Pakistan had a negative influence on the implementation of some components of project PAK-D86 (Drug law enforcement programme for Pakistan). On the other hand, the second phase of the Tajikistan drug control agency project (TAJ-H03) as well as project KYR-G64 (Drug control agency in Kyrgyzstan) could be started earlier than expected because the required funding became available.

Schedule 3

25. Schedule 3 shows programme expenditure and programme support costs by executing agency and funding source. It is significant to note that, despite a $9.8 million, or 8.7 per cent, lower programme delivery as compared with 2000-2001 (after adjustment for core posts), the same level of programme support cost recovery — $7.2 million — was achieved in 2002-2003 as in 2000-2001. This is because UNDCP implemented 50 per cent of the programme portfolio in 2002-2003 as compared with only 37 per cent in 2000-2001. Since UNDCP recovers the full 13 per cent in projects under its execution, increases in its share of the portfolio results in higher recovery. Secondly, recovery from special-purpose funds increased by $0.8 million in 2002-2003 as compared with 2000-2001 because fewer general-purpose funds were committed to the programme budget. This resulted in a corresponding saving of an extra $0.8 million to the general-purpose fund in 2002-2003.

Schedule 4

26. Schedule 4 covers the support budget, which finances the infrastructure of the United Nations Office on Drugs and Crime, as is summarized in table 6.

Table 6
Support budget and expenditure, 2002-2003
(Millions of United States dollars)

Item	*Revised budget 2002-2003 a*	*Final budget 2002-2003 b*	*Expenditure 2002-2003 c*	*Implementation rate d=(c/bx100) (percentage)*
Field office network	17.6	18.1	17.6	97
Programme support, headquarters	5.9	7.0	5.5	78
Total	**23.5**	**25.1**	**23.1**	**92**
Management and administration	8.9	10.3	9.8	95
Grand total	**32.4**	**35.4**	**33.0**	**93**

27. Expenditure was $2.4 million below the final budget and close to the figure of the revised budget. Of this variance, $1.8 million refers to the cost of core posts previously included in this budget, which should have been removed. This adjustment has not resulted in any unnecessary or unauthorized expenditure. The remaining $0.6 million savings result from continued cost control in 2003 despite adverse exchange rate movements.

28. Total expenditure in 2000-2001 of $33.2 million included the cost of 14 posts, amounting to $1.8 million, that have been reclassified as core programme posts in 2002-2003. Therefore, taking this adjustment into account, expenditure in 2002-2003 was $33 million as compared with $31.4 million in 2000-2001 — an increase of $1.6 million (5 per cent), reflecting mainly inflation and exchange rate changes.

Schedule 5

29. Schedule 5 shows the status of operating funds advanced to executing agencies as at 31 December 2003. Advances to other implementing partner agencies increased by $6 million in 2002-2003 because lower programme delivery resulted in lower disbursement of funds advanced.

Notes to the financial statements

30. The financial statements include 20 notes. Note 2 describes the accounting policies applied in the preparation of the statements. Notes 3-20 provide additional information and clarification of the Programme's financial activities for which the Executive Director has administrative responsibility.

Chapter II
Report of the Board of Auditors

Summary

The Board of Auditors has reviewed the operations of the Fund of the United Nations International Drug Control Programme (UNDCP) and has also audited its financial statements for the biennium ended 31 December 2003.

The Board's main findings are as follows:

(a) The notes to the financial statements disclosed only the net accrued liabilities for after-service health insurance, without a comprehensive actuarial valuation;

(b) Contributions in kind were not disclosed in the financial statements;

(c) Reasons for the reclassification of some expenditure under the programme budget were insufficiently documented;

(d) A significant amount in late charges ($1 million) has been charged to the programme budget and cannot be related to any specific financial period;

(e) Field unliquidated obligations, estimated at $0.8 million, are still not disclosed in the statements;

(f) For the second time in three years, a field bank account was unknown to United Nations Office on Drugs and Crime headquarters and was unaccounted for;

(g) A bank account balance of $760,000 remained unaccounted for by the bank for several months; no interest was paid to UNDCP on this balance;

(h) Locally appointed external auditors qualified their opinion on a total of $11,188,434 in nationally executed expenditure, and no recovery action was envisaged regarding these funds;

(i) No formal staff rotation policy was in place regarding field offices.

The Board recommends that the United Nations Office on Drugs and Crime improve the follow-up of programme expenditure, including outstanding obligations; its procedures to properly account for unliquidated obligations; the implementation of its policy regarding the management of bank accounts; the planning and monitoring of its programme delivery; its control over nationally executed projects; and instructions on field management, including standard accounting practices. By July 2004, the administration planned to implement a number of appropriate remedies.

A list of the Board's main recommendations appears in paragraph 11 of the present report.

A. Introduction

1. The Board of Auditors has audited the financial statements and reviewed the operations of the Fund of the United Nations International Drug Control Programme (UNDCP) for the biennium 2002-2003 in accordance with General Assembly resolution 74 (I) of 7 December 1946. The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency and the International Standards on Auditing. Those standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditures recorded in the financial statements for the biennium ended 31 December 2003 had been incurred for the purposes approved by the governing bodies, whether income and expenditure had been properly classified and recorded in accordance with the Financial Regulations and Rules and whether the financial statements of UNDCP presented fairly its financial position as at 31 December 2003 and the results of the operations for the period then ended. The audit included a general review of financial systems and internal controls and a test examination of accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

3. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under financial regulation 7.5. The reviews focused primarily on general controls and procedures in place in the field and on programme and financial management at headquarters.

4. The audit was carried out at headquarters in Vienna and in field offices in Brazil, Egypt, Lebanon, Tajikistan, Uzbekistan and Viet Nam for the same period.

5. The Board continued its practice of reporting the results of specific audits in management letters containing detailed observations and recommendations to the administration. This practice allowed for an ongoing dialogue with the administration.

6. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations and conclusions were discussed with the administration, whose views have been appropriately reflected in the report.

7. A summary of the Board's main recommendations is contained in paragraph 11. The detailed findings and recommendations are reported in paragraphs 15-118.

1. Previous recommendations not fully implemented

Biennium ended 31 December 1999[1]

8. In accordance with section A, paragraph 7, of General Assembly resolution 51/225 of 3 April 1997, the Board reviewed the measures taken by the administration to implement the recommendations made in its report for the period ended 31 December 1999. Contrary to the Board's recommendation in paragraph 29 of that report, the United Nations Office on Drugs and Crime took no follow-up action to clear long-outstanding balances for accounts receivable. Schedule 4 to the financial statements shows that an advance made to a non-governmental organization ($175,080) had remained unchanged since 1996-1997.

Biennium ended 31 December 2001[2]

9. In accordance with General Assembly resolution 48/216 B of 23 December 1993, the Board also reviewed the measures taken by the administration to implement the recommendations made in its report for the biennium ended 31 December 2001. Details of action taken and the comments of the Board are included in the report and have been summarized in the annex to the present chapter. Out of a total of 14 recommendations, 4 (29 per cent) had been implemented, while 8 (57 per cent) were under implementation and 2 (14 per cent) had not been implemented (including 1 overtaken by events) by 30 April 2004.

10. The Board has reiterated previous recommendations not yet implemented (see paras. 63 and 99 below). The Board invites the Administration to assign specific responsibility and establish an achievable time frame for their implementation.

2. Main recommendations

11. The Board's main recommendations are that the United Nations Office on Drugs and Crime should:

(a) Improve the monitoring of programme expenditure, including obligations, in the field, with a view to avoiding unbudgeted and late-reported expenditure (para. 34);

(b) Closely monitor the implementation of its operations with the United Nations Development Programme (UNDP), so as to detect and address in a timely manner any impact resulting from the use of the new enterprise resource planning system of UNDP (para. 36);

(c) Review its procedures in order to properly record all obligations (para. 47);

(d) Remind its offices of the rules on bank account management and investigate further the issue of the $760,000 that disappeared for several months from a bank account (paras. 53 and 58);

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[1] See *Official Records of the General Assembly, Fifty-fifth Session, Supplement No. 5I* (A/55/5/Add.9), chap. II.

[2] See ibid., *Fifty-seventh Session, Supplement No. 5I* and corrigendum (A/57/5/Add.9 and Corr.1), chap. II.

(e) Review the funding mechanism and targets for end-of-service and post-retirement benefit liabilities (para. 63);

(f) Match accurately the programming of its projects with the collection of funds on an annual basis (para. 77);

(g) Strengthen its controls on and requirements for nationally executed projects (para. 96);

(h) Increase efforts to achieve consistency in the substance and form of audit reports on nationally executed expenditure (para. 99);

(i) Act upon qualified audit reports on reported misuse of funds in nationally executed projects (para. 104);

(j) Standardize field office accounting practices (para. 110).

12. The Board's other recommendations appear in paragraphs 41, 65, 72, 80, 90 and 106.

B. Background

13. The United Nations International Drug Control Programme was established, pursuant to General Assembly resolution 45/179 of 21 December 1990, to coordinate international action in the field of drug abuse control. Effective 1 October 2002, the Office for Drug Control and Crime Prevention became the United Nations Office on Drugs and Crime.

14. The risk of a cash flow problem in the general purpose fund of the United Nations Office on Drugs and Crime led the Board of Auditors to recommend in its report for the biennium 2000-2001 that it review its administrative and organizational structure to improve its cost-efficiency and effectiveness. The Secretary-General's bulletin of 15 March 2004 (ST/SGB/2004/6) details the new organizational structure of the Office. Its management and administrative services have been integrated with those of the United Nations Office at Vienna. They also coordinate the activities of the United Nations Interregional Crime and Justice Research Institute, as well as implementing the Crime Prevention and Criminal Justice Programme. The latter three entities are covered under the regular budget, as reported by the Board in its report on the financial statements of the United Nations.[3]

C. Financial issues

1. Financial overview

15. The Board performed an analysis of the financial position of the United Nations International Drug Control Programme as at 31 December 2003. Some key financial indicators are set out in the table below.

[3] Ibid., *Fifty-ninth Session, Supplement No. 5* (A/59/5), vol. I.

Table 1
Key financial indicators

Description of ratio	*2000-2001*	*2002-2003*
Pledges outstanding/total assets[a]	1.01	1.02
Cash/liability[b]	1.29	1.18
Contingent liabilities/operational reserve[c]	0.81	0.71
Support expenditure/general purpose income[d]	0.86	0.77
Administrative and support expenditure/total expenditure[e]	0.25	0.26
General purpose contributions/total voluntary contributions[f]	0.26	0.25

[a] A low indicator depicts a healthy financial position.
[b] A high indicator reflects the extent of cash available to settle debts.
[c] A figure below 1 confirms the ability of the organization to cover contingent liabilities with its operational reserves.
[d] Including headquarters expenditure. A low indicator reflects the extent of non-earmarked funds to cover expenditure of a support nature.
[e] A low indicator depicts a flexible and programme-oriented organization.
[f] This indicator shows the ratio of non-earmarked contributions to total contributions to the United Nations Office on Drugs and Crime.

16. Total expenditure for the biennium 2002-2003 amounted to $137.9 million, a decrease of 6 per cent relative to the biennium 2000-2001. This figure does not include regular budget expenditure ($18 million, an increase of 25 per cent).

17. The lower level of total expenditure for the biennium 2002-2003 is due mainly to the 7 per cent decrease in programme activities delivered, from $110.2 million in the previous biennium to $102.3 million, whereas support expenditure decreased by only 0.6 per cent, from $33.2 million to $33 million. Thus, the ratio of support charges to total expenditure increased slightly, from 25 to 26 per cent.

18. Voluntary contributions to the Fund have, on the contrary, increased significantly, from $91.9 million to $112.4 million, both for special and general purposes. The improvement in general-purpose contributions (an increase of 19 per cent, from $24 million to $28.6 million), combined with reduced programme activities financed by such funds, helped restore the general-purpose fund balance to a more manageable level of $11 million.

19. Assets totalling $82.8 million would cover liabilities of $7.7 million, as disclosed in the notes to the financial statements. However, these liabilities are not completely disclosed, as shown in section C.5 below.

2. United Nations system accounting standards

20. The Board assessed the extent to which the financial statements conformed to the United Nations system accounting standards. The review indicated that the financial statements were consistent with the standards except in relation to the issues raised in the present report in connection with paragraph 40 of the accounting standards, on obligations (see para. 42 below) and paragraph 46 of the accounting standards, on the netting-off of unliquidated obligations with receivables, as found to have occurred in one field office (see para. 45 below).

3. Presentation and disclosure of the financial statements

21. The General Assembly, under the terms of its resolution 55/220 A of 23 December 2000, requested the Secretary-General and the executive heads of the funds and programmes of the United Nations, in conjunction with the Board of Auditors, to continue to evaluate what financial information should be presented in the financial statements and schedules and what should be presented in the annexes to the statements. The Board has conducted a preliminary review of the general presentation and disclosure in the financial statements for the year ended 31 December 2003.

22. The United Nations Office on Drugs and Crime has taken into consideration the Board's recommendations with regard to late charges (see paras. 31-35 below) and the impact of the change in accounting policy for contributions. In connection with the finding stated in paragraph 35 below, the Office made no amendment to the financial statements and notes.

Change of accounting policy for voluntary contributions

23. During the biennium, the United Nations Office on Drugs and Crime reverted to cash-basis accounting for voluntary contribution income. This was adequately applied to the events and transactions occurring after the date of the change. No adjustments relating to prior periods were made to the opening balance. The restatement of income for the biennium 2000-2001 was kept for information purposes only under note 3 to the financial statements. In accordance with paragraph 19 of the United Nations system accounting standards, the effect of the changes have been disclosed and quantified under a separate note, as suggested by the Board, to emphasize the changes, including the effects on statements I and II.

Contributions in kind

24. Following an interim audit by the Board in 2003, the United Nations Office on Drugs and Crime decided to add a note to its financial statements, starting with the biennium 2004-2005, disclosing the value of contributions in kind received.

4. General-purpose balance

25. Administrative and support activities are financed from the general-purpose fund, whose income is derived from non-earmarked voluntary contributions, support cost income (at a fixed rate) and interest income.

26. The Office sometimes advances funds from the general-purpose fund to start projects before earmarked funds are obtained. Significant amounts have been drawn in the past to pre-finance such projects. This, along with a sharp decline in non-earmarked contributions, lowered the balance of the fund to $8.5 million as at 31 December 2002.

27. As at 31 December 2003, the general-purpose fund balance had improved slightly, to $11 million, mainly through reduced programme expenditure and increased unearmarked contributions.

Table 2
General purpose expenditure for 2000-2001 and 2002-2003
(Millions of United States dollars)

	2000-2001	*2002-2003*
Programme expenditure	16.0	4.8
Support budget[a]	33.2	32.9

[a] These figures do not include the support costs paid to implementing agencies, in order to reflect only the comparison between the administrative structure of the United Nations Office on Drugs and Crime and its programme activities; table 1 above includes those support costs.

28. In 2002-2003, the support rate, excluding the support costs for implementing agencies, increased slightly, to 24 per cent, from 23 per cent in 2000-2001. The expected impact of the restructuring of the United Nations Office on Drugs and Crime in terms of savings did not materialize in 2002-2003.

29. After an interim audit in 2003, the Office implemented a monthly report on general-purpose funds. By June 2004, it was working on "automating" the report.

5. Late reporting of charges

30. The implementation of an enterprise resource planning system, rolled out in January 2004, led UNDP to identify field expenditure related to previous periods, in the amount of $2.2 million, for which it considered that the United Nations Office on Drugs and Crime was liable, and the Office was accordingly invoiced. The Office agreed to pay $585,453. After a detailed analysis of the charges, the Office intended to reject the rest, mostly because they related to closed projects with no remaining funds.

31. As stated in note 10 to the financial statements, despite previously certified financial reports from UNDP, project and support budget accounts are being charged retroactively by UNDP for $976,363 of previously unreported expenditures, and $669,104 of operating funds previously advanced to Governments by UNDP are now also being requested. The total of these two figures is $1,645,467.

32. The United Nations Office on Drugs and Crime stated that, as a matter of prudence, considering the unusual reporting and the paucity of information provided to it by UNDP on these charges, and as it could not determine the financial period to which the amount of $976,363 related, it had finally recorded an entry of $1,645,467 under "extraordinary charges". The effect is that the expenditure for 2002-2003 is understated by an undetermined share of these charges that partly relates to the period. However, the Board notes that this did not have an effect on the reserves as at 31 December 2003. The Office intended to introduce in 2004 an improved system of financial reporting from the field to headquarters that would track project expenditure, including outstanding obligations. It was also to actively pursue the case of rejected charges with UNDP.

33. The Board is of the opinion that a total $976,363 in unreported charges should have been identified long ago through adequate control over project funds. The Board also notes that, while the United Nations system accounting standards do not

define "extraordinary charges", the above-mentioned expenditure does not meet the definition provided by international accounting standard 8.

34. **The United Nations Office on Drugs and Crime agreed with the Board's recommendation to improve the follow-up of programme expenditure, including obligations, in the field, with a view to avoiding unbudgeted and late-reported expenditure, and was to implement a new ledger system in 2004.**

35. UNDP provided accounting and reporting services for field support and project budgets representing $73.8 million (53 per cent of the total expenditure of the United Nations Office on Drugs and Crime). The Board is concerned that, regarding the implementation in 2004 of the new enterprise resource planning system of UNDP, there have been control deficiencies and, especially, a lack of an independently validated internal control framework. In the event that the risk highlighted for UNDP operations were to materialize, this might impact the operations of the Office.

36. **The Board recommends that the United Nations Office on Drugs and Crime closely monitor the implementation of its operations with UNDP, so as to detect and address in a timely manner any impact resulting from the use of the new enterprise resource planning system of UNDP.**

6. Reclassification of expenditure

37. Starting in 2002-2003, "the programme budget is divided into a core programme and a technical cooperation programme. Under the core programme, those activities that were mandated by legislative bodies and that are of an ongoing nature are shown. ... Posts carrying out mainly substantive functions are more accurately classified from support to programme."[4] Fourteen posts previously charged on the biennial support budget, covering programme support as well as management and administration, as stated in financial rule 2.2 (e) of the Fund of UNDCP, have been transferred to the programme budget.

38. In its review of the final budget for 2002-2003, the Advisory Committee on Administrative and Budgetary Questions requested that "reasons for the transfer of posts from the support budget to the core programme budget be adequately explained in the budget report".[5] The Advisory Committee, in its review of the 2002-2003 initial support budget, also cautioned that "arbitrary classification of costs between programme costs and support costs can inflate programme costs, while administrative and management expenditure and programme support can be held artificially low".[6]

39. The Board reviewed accordingly the job descriptions and the time management sheets of the 14 posts concerned to check the reasons for their transfer. Their reclassification amounted to a transfer to "programmes" of $1.8 million for staff costs in what had been classified under support costs for 2002-2003.

40. Out of the 14 posts reclassified from support to core programme budgets in 2003, the Board found that six posts, at an annual gross cost of $738,900, did not relate directly to programmes and should therefore be reclassified under the support

[4] E/CN.7/2003/20, "Consolidated budget for the biennium 2004-2005 for the United Nations Office on Drugs and Crime", para. 122.

[5] E/CN.7/2003/21, "Consolidated budget for the biennium 2004-2005 for the United Nations Office on Drugs and Crime, report of the Advisory Committee on Administrative and Budgetary Questions", para. 13.

[6] E/CN.7/2001/18, para. 19.

budget. After the Board's audit, the United Nations Office on Drugs and Crime decided to classify two posts under the support budget and to properly document the rationale for the programme classification of the other posts. It still considered that the Advocacy and Evaluation Unit was more programme-related; however, the Board is of the view that this position is not compliant with rule 2.2.

41. **The Board recommends that the United Nations Office on Drugs and Crime classify properly all posts between programme and support budget and document the rationale for classifying expenditure under one or the other of its budgets.**

7. Unrecorded obligations

42. UNDP provides administrative and financial support for field offices' budgets and projects. Field representatives of the United Nations Office on Drugs and Crime act as certifying officers, while UNDP representatives are approving officers. In its report on the biennium 2000-2001,[2] the Board raised again an emphasis of matter on the financial statements of the Office, as unliquidated field obligations had not been properly reported then disclosed in the accounts. No reporting system was in place in field offices.

43. The Office had included this issue in a draft working arrangement between itself and UNDP that was to be signed in 2002. By April 2004, the draft had still not been finalized. The Board recommended that the Office develop procedures for processing and monitoring obligations in compliance with paragraph 4 (iii) of the United Nations system accounting standards; finalize with UNDP an updated working arrangement with the aim of securing reliable reporting of all obligations in a timely fashion; and promptly terminate the present situation whereby costs are recognized only when payments are made.[7] The Office could not reach an agreement with UNDP in the course of 2002-2003 on the reporting of field obligations.

44. Following a new audit by the Board, and faced with the lack of agreement on the matter of unliquidated obligations, the Office, in March 2004, sent an instruction to its field offices to try to assess the value of undisclosed liabilities. The result of this data-gathering was that, for expenditure charged on support lines, the field offices reported unrecorded obligations amounting to $100,654. As regards obligations related to projects, the amount reported was $661,110, the two figures thus totalling $761,764. Although all information on unrecorded obligations was received, most field offices sent their figures without any detail, which prevented the Office from validating or explaining them. There is therefore no assurance that these amounts, as reported in paragraph 47 of note 15 to the financial statements, are fairly stated.

45. The Board requested and obtained documentation on a sample of unrecorded field obligations. The Board also found that one field office had offset unrecorded obligations against accounts receivable, contrary to paragraph 46 of the United Nations system accounting standards.

46. **The Board is of the opinion that the obligations reported in the financial statements for the biennium 2002-2003 have been misstated by an amount that**

[7] See *Official Records of the General Assembly, Fifty-seventh Session, Supplement No. 5I* and corrigendum (A/57/5/Add.9 and Corr.1), chap. II, para. 37.

was not determined exactly, although not sufficiently material for the Board to qualify its opinion.

47. **The United Nations Office on Drugs and Crime agreed with the Board's recommendation to review its procedures in order to account properly for obligations, and therefore to comply with accrual accounting as provided for by the United Nations system accounting standards, by UNDCP financial rule 15.6 of and by the accounting policies reflected in note 2 to the financial statements.**

8. Bank accounts

Control over field bank accounts

48. The United Nations Office on Drugs and Crime closed its Brussels liaison office at the end of 2001. The proceeds from the sale of equipment were deposited in a bank account that was in the name of the liaison office and unknown to headquarters. The field office transferred $9,925 from that bank account to UNDP as a credit in favour of the United Nations Office on Drugs and Crime. Only when UNDP transmitted documentation on this credit and on the liquidation of the office was United Nations Office on Drugs and Crime headquarters informed of the existence of the Belgian bank account, opened in 1999.

49. The actual sales price of the equipment (total purchase value was $76,606) has not been documented. The United Nations Office on Drugs and Crime could not confirm that the amount transferred represented the actual proceeds from the sale of the liaison office's equipment. Information on the date of the opening of the account, the person who requested it and details of transactions were requested by the United Nations Office on Drugs and Crime from the bank only at the time of the Board's audit.

50. The Board mentioned in its previous report the case of the Brazilian bank account included in the financial statements for 2000-2001 at the Board's request. The Office stressed that thereafter it repeatedly sought and received assurances from the field office representatives that they had not established any local bank accounts. This second episode of unreported field bank accounts leads to the conclusion that the control over bank accounts in the field remained insufficient, thus increasing the risk of fraud and/or misuse of the Office's monies.

51. The Board noted in its report for the biennium 2000-2001 that the Office had only ascertained that the United Nations Treasurer had authorized no other field bank account, as required by standard procedures.[8] Such a follow-up fell short of due diligence, as confirmed by the second incident, which should have included a direct survey of all field offices.

52. The Board is concerned by the breakdown in internal controls at the Office with regard to the two instances of unauthorized and unreported use of field office bank accounts.

53. **The United Nations Office on Drugs and Crime agreed with the Board's recommendation: (a) to take appropriate steps to identify and close any unauthorized bank account; (b) to remind all staff concerned of rules on the**

[8] Ibid., para. 47.

management of bank accounts; and (c) to provide UNDP with a list of the bank accounts duly authorized by the United Nations Treasurer.

Change of bank accounts

54. The United Nations Office on Drugs and Crime changed its main bank account for security reasons, closing the previous account in early 2002. It duly requested the transfer of balances from the old to the new account.

55. The web site printout for the New York bank account for March 2002 showed two credits in favour of the Office ($480,000 and $280,000) and a balance of $760,000 on the old account as at 28 February 2002 (it was supposed to have been closed on 11 February 2002). The bank's hard-copy statement reported a nil closing balance as at the same date. Over six months later, on 18 September 2002, and with no audit trail in between, the bank transferred the $760,000 into the new account. Neither the Office nor the bank has been able to explain the six-month delay, or why and how the old account was still operating.

56. The Board enquired in April 2004 as to why this was not detected before; the Office explained that bank reconciliation is performed on the basis of hard-copy statements. The bank concurred that the hard-copy statement is the only legal bank statement. By the end of the audit by the Board, the bank had yet to provide an explanation and to pay interest to the Office on the balance unduly kept for over six months.

57. The United Nations Office at Vienna Treasury did not request a formal statement for the closure of each bank account, as it does at the end of the year for bank reconciliation in accordance with United Nations financial rule 104.11.

58. **The United Nations Office on Drugs and Crime agreed with the Board's recommendation: (a) to investigate further the issue of the $760,000 bank balance that disappeared for six months in 2002 so as to prevent the recurrence of such a problem during a transfer between two accounts; and (b) to request that the bank pay compounded interest for the period.**

9. Liabilities for end-of-service and post-retirement benefits

59. Contingent liabilities for end-of-service and post-retirement benefits amount to $9.8 million as at 31 December 2003, as reflected in the second paragraph of note 17 to the financial statements.

Table 3
Liabilities for end-of-service and post-retirement benefits
(Millions of United States dollars)

	2000-2001	*2002-2003*
After-service health insurance[a]		1.3
Staff separation costs[b]	8.5	8.5
Total	**8.5**	**9.8**

[a] Net accrued liability.
[b] Does not include repatriation grants of $1.1 million already provided for, as reflected in note 16 to the financial statements.

60. After-service health insurance coverage is provided to retired staff members and their dependants. Retired staff members in Vienna opt for either a group medical insurance plan or the Austrian Social Security programme. The monthly contribution is determined every year and recovered from the monthly pension, 25 per cent being charged to the beneficiary and 75 per cent to the employer. The corresponding expenses, which are provided for in the support budget, or under the project budgets for project staff, are reported as current-year expenditure once staff members separate from service.

61. The United Nations system accounting standards, in paragraph 57, provide that "appropriate disclosure should be made in the notes to the financial statements and estimated liabilities quantified where possible, showing the basis of valuation. As far as after-service medical benefits are concerned, such liability should normally be determined by actuarial evaluation." In paragraph 19 of its report for the biennium 2000-2001,[2] the Board noted that UNDCP had not yet complied with the full requirements of the accounting standards for after-service medical costs and that there was no provision to cover the liability.

62. For 2002-2003, the amounts disclosed under note 17 to the financial statements still reflect only the net accrued liability. The United Nations Office on Drugs and Crime (a) did not determine the total gross liability, that is, the total amount of future benefits for active staff and retirees, (b) did not offset this amount from retiree contribution to determine net liability and (c) did not value these liabilities at a discounted rate because it did not commission an actuarial valuation.

63. **The United Nations Office on Drugs and Crime agreed with the Board's reiterated recommendation that it review the funding mechanism and target for end-of-service and post-retirement benefit liabilities, in conjunction with the administration of the United Nations and other funds and programmes.**

10. Non-expendable equipment

64. The value of non-expendable property amounted to $14.4 million as at 31 December 2003, compared with $4.8 million at the end of the previous biennium. The significant increase in the value of the inventory is linked to the new disclosure of field project inventory, as recommended by the Board during an interim audit in September 2003. Note 19 to the financial statements, on non-expendable property, is compliant with United Nations system accounting standards; however, the standards also provide, in paragraph 49, that "where possible and to the extent required by the financial policies of the organization, additions and disposals made during the financial period should also be disclosed".

65. **The United Nations Office on Drugs and Crime agreed with the Board's recommendation to disclose additions and disposals of non-expendable equipment in the financial statements for the biennium 2004-2005 to the extent possible.**

11. Write-off of losses of cash, receivables and property

66. The administration provided the Board with details of $665,502 in losses of cash and other non-expendable property (excluding items with values of less than $1,500) written off during the biennium 2002-2003. Non-expendable equipment was written off on the basis of original cost, under the terms of financial rule 106.9. An

amount of $3,227 was due to theft and losses, $19,076 to damaged and destroyed property and $213,617 to normal wear and tear. The United Nations Office on Drugs and Crime did not disclose the reason for the write-off of the remaining $429,582 (64.6 per cent).

12. Ex gratia payments

67. The Office informed the Board that no ex gratia payment was made during the biennium ended 31 December 2003.

D. Management issues

1. Programme delivery

Calculation of the financial delivery rate

68. Programme expenditure for the biennium 2002-2003 amounted to $102.3 million. The report of the Executive Director, in its overview of budget performance, showed a rather satisfactory budget implementation rate of 96 per cent.

69. This rate, however, is based on final budget figures revised late in the biennium. Compared with the initial budget or with the revised budget, the overview would give different results and lead to different conclusions. The rate of programme budget implementation would be lower, at 78.6 (initial) or 77.5 (revised) per cent, similar to the implementation rate of the previous biennium. On the other hand, the support budget was satisfactorily executed, at the rate of 93.2 per cent (initial), or in overexpenditure (revised), with a 101.8 per cent rate of expenditure.

70. This illustrated a persistent difficulty for the United Nations Office on Drugs and Crime in executing correctly its programme expenditure and in controlling its support expenditure.

71. The Office explained that its programme budget was an indicative financial plan projecting programme priorities subject to unforeseen changes in earmarked voluntary funding, political shifts and operating problems. It projected average implementation rates of 80 per cent for the programme budget and 100 per cent for the support budget. The Office further explained that, on the other hand, the support budget was a constrained framework and that the overexpenditure on support was related to the salary increase approved by the General Assembly. The Office was of the opinion that overall budgetary control was being achieved but concurred that it could be further improved.

72. **The Board recommends that the United Nations Office on Drugs and Crime pursue its efforts to prepare its programme budget on the basis of realistic assessments of deliverable outputs and resources.**

Ongoing projects

73. The financial risk attached to the funding of ongoing projects was significantly reduced during the biennium. As at 20 April 2004, the total provisional budgeted amount of ongoing projects — that is, projects with current-year allotments and those not financially closed — amounted to $372,610,057. In April 2004, the rate of

funding, general-purpose advances not included, reached 87 per cent, compared with 76 per cent in January 2002.

74. Fully funded multi-year projects represented 40 per cent of the total, the remaining 60 per cent being for partially funded multi-year projects. The funding shortfall for all ongoing projects amounted to $36.6 million. The United Nations Office on Drugs and Crime indicated that this related to budgets for future years. In case of funding shortfalls, there is a risk that projects may not be completed, while some of the funding may already have been spent, with less than fully effective delivery.

75. Most of the Board's field audits highlighted poor budget programming procedures in use at field offices and the crucial lack of a framework for the follow-up of projects. In these matters, field offices generaliy relied on their implementing partners.

76. The Office confirmed that it is not currently possible to match accurately programming with collections on an annual basis. This is because, while collections are attributed to pledges for each pledge year in order to determine the amount of pledged funds outstanding, collections are not attributed to projects in the year in which they are actually received. Thus, for each project, inflows in terms of collections and outflows in terms of expenditure or budgets cannot be accurately matched on an annual basis.

77. **The United Nations Office on Drugs and Crime agreed with the Board's recommendation to match accurately programming with collections on an annual basis, in order to allow for adequate monitoring of resources and outputs on an annual basis.**

78. By April 2004, 10 per cent of the total portfolio of $372.6 million in projects remained unfunded, but this concerned the years 2005 and 2006.

79. For all programmes initiated since 2000, whether fully funded or unfunded, authorized expenditure exceeded funds collected by about $9.2 million, consistent with the figure disclosed for negative special purpose project balances in note 18 to the financial statements. The Board recommended, in paragraph 52 of its report for 2000-2001,[2] that the Office take drastic measures to bring unfunded projects to a manageable level.

80. **The United Nations Office on Drugs and Crime agreed with the Board's recommendation: (a) to review again its portfolio of projects by closing those that are oldest and have poor funding prospects and (b) to set closing procedures with field offices for all projects.**

81. Delays in starting the implementation of projects were not duly announced by field offices, nor were delays precisely monitored by the Office. The Board is of the view that no project should be scheduled over more than a reasonable period in terms of medium-term planning. The Office agreed on the need to tighten closure procedures and to monitor implementation more closely to avoid unnecessary delays.

82. The Office confirmed its policy of launching projects with at least 50 per cent funding in terms of pledges covering the total approved budget, and with 100 per cent pledge coverage where possible. In addition, it planned to achieve 100 per cent cash coverage of 2004 allotments by the fourth quarter of 2004. New allotments in

2004 and initial allotments for 2005 would be issued against 100 per cent cash coverage only.

Consequences observed in the field due to lack or delayed allotment of funds

83. The Board observed in the field several examples of budget "arrangements" linked to delays in the administration of funds (lack of funding or delays between project phases).

84. In one instance, the Office charged the cost of a programme manager in connection with a project he was not working on in order to retain his services. Another field office "cost-shared" salaries of project staff among other available allotments to ensure continuity of the activity until a new allotment was issued. In this case, the Office committed funds without a proper allotment. Another project's evaluation report noted positive outputs, although the training and equipment components envisaged in the project document and not implemented due to funding constraints were covered through other channels.

85. While the project document represents the contractual basis upon which donors contribute to a project, in one case it was never updated following the downgrading of the project's outputs. The shortage of funds for yet another project resulted in a reduction in most budget lines and a change in the distribution of funds (personnel and travel expenditure increasing from 7 per cent to 33 per cent of the total budget).

86. These examples of arrangements in the field to ensure continuous implementation of ongoing projects confirm the need to assess funding and cash available for the overall project rather than by financial and accounting periods.

2. Programme expenditure

87. In 2002-2003, the United Nations Office on Drugs and Crime implemented 30 per cent, or $31.7 million, of its programme expenditure through Governments, commonly referred to as nationally executed expenditure. Projects executed nationally by Governments are subject to independent external reviews on an annual basis, to provide the Office with assurances of the proper use of funds.

Audit coverage

88. The Board recommended in paragraphs 59-76 of its report for 2000-2001[2] that the Office improve the coverage and quality of audit reports, the timeliness of their submission, the follow-up of the qualified opinions and the implementation of auditors' recommendations.

89. As at 31 December 2003, the Office had improved the local audit coverage of nationally executed expenditure. The Board had noted in its report on the Office's financial statements for the biennium 1998-1999 that the audit coverage of nationally executed expenditure was insufficient (expenditure of $14.2 million out of $18.3 million incurred through UNDP on nationally executed projects was not supported by audit reports as at the date of the statements). The amount of 2000-2001 expenditure supported by audit reports added up to $33,096,587 out of $33,421,060 (99.03 per cent) as at 30 April 2004. Some audit reports remained pending for expenditure incurred in 2000-2001. The Office considered that there is no point in requiring them; the Board is of the view that such reports are compulsory, regardless of how late they are received.

90. **The Board recommends that the United Nations Office on Drugs and Crime follow up all audit reports on nationally executed expenditure outstanding for past bienniums.**

91. The Board recommended, in paragraphs 69, 74 and 76 of its previous report,[2] that the Office establish standard terms of reference with UNDP for the audit of nationally executed expenditure and ensure that the audit scope and the format of the audit report are consistent; that it review the reasons for the qualified opinions of local auditors in order to measure their exact financial impact and undertake appropriate action with the implementing partners; and that it request field offices and UNDP to devote special attention to enforcing the yearly deadline for the submission of the audit report. UNDP, to which such a recommendation was also addressed by the Board, modified its manual on national execution.

92. For the biennium 2002-2003, the Office achieved a high rate of audit coverage for nationally executed expenditure. The deadline of 15 March 2004 set for submitting audit certificates was not complied with, but by 14 May 2004 the audit coverage was up to 98 per cent of expenditure, as reflected in table 4.

Table 4
Nationally and intergovernmental/non-governmental organization-executed projects, audited expenditure and breakdown of audit opinion for the biennium 2002-2003
(United States dollars)

	2002			*2003*			*2002-2003*
	Nationally executed expenditure	*I/NGO*	*Total*	*Nationally executed expenditure*	*I/NGO*	*Total*	*Total*
A. Expended	14 348 713	1 085 652	15 434 365	15 560 050	743 192	16 303 242	31 737 607
B. Audited	14 250 587	1 006 674	15 257 261	15 071 602	713 288	15 784 890	31 042 151
1. With disclaimer	263 089	0	263 089	272 784	0	272 784	535 873
2. Qualified	9 236 167	685 856	9 922 023	1 266 411	0	1 266 411	11 188 434
3. Unqualified	4 751 331	197 012	5 072 149	13 532 407	713 288	14 245 695	19 317 844
Audit coverage (B/A) (percentage)	99	93	99	97	96	97	98
Unqualified audited expenditure (B.3/B) (percentage)	33	32	33	90	100	90	62

Source: Board of Auditors.

93. Only 60 per cent of intergovernmental and non-governmental organization-executed expenditure and 62 per cent of nationally executed expenditure during the biennium 2002-2003 obtained an unqualified audit opinion.

94. For a project amounting to $8.9 million, the figures reported by UNDP and the relevant Government differed by some $2.6 million in 2002. This led the local auditor to qualify the project's expenditure in 2002. In 2003, the report of the same local auditor noted that the 2003 figures reflected an adjustment made in 2003 to include the expenditure not reported in 2002, thus resolving the variance. Nevertheless, the auditor's report did not mention whether those prior-year

transactions were reviewed and audited on the corrected basis, thus providing no guarantees on actual transactions audited and on the correct use of funds.

95. The Board is concerned about the amount of nationally executed expenditure for which local auditors issued a qualified opinion, but notes the improvement in the year 2003 as reflected in table 4 above.

96. **The Board recommends that the United Nations Office on Drugs and Crime strengthen its controls on and requirements for nationally executed projects.**

Terms of reference for nationally executed expenditure audits

97. In November 2003, the Office requested field offices to ensure that the terms of reference for the audits reflected the UNDP procedures for national execution that require a section on the status of implementation of audit recommendations of prior years. The Office also requested field offices to pay special attention to the consistency of the terms of reference for the Office's nationally executed expenditure audits, including the scope of the audit, as well as the format and quality of the audit reports. In addition to requests relating to the quality of audit reports, it underlined the necessity of the submission of English translations.

98. Through a comparative review of audit reports issued for 2002 and for 2003 (when available), the Board saw no evidence that the terms of reference changed between the two periods. United Nations Office on Drugs and Crime-wide compliance with UNDP guidelines on the content of audit reports and the follow-up of recommendations of previous years had yet to be improved.

99. **The United Nations Office on Drugs and Crime agreed with the Board's reiterated recommendation to achieve greater consistency in the substance and form of audit reports on nationally executed expenditure.**

Follow-up on previous qualified opinions and actions taken

100. On 10 November 2003, a letter was sent to all the United Nations Office on Drugs and Crime field offices requesting that they report on the steps taken to implement the recommendations of previous audit reports. In April 2004, 19 reports on the implementation of recommendations of previous years had been submitted and 6 were pending.

101. In many cases, the nationally executed expenditure projects that were not satisfactorily managed in 2002 remained problematic in 2003. In one case, the audit opinion for a project was qualified for 2002 and 2003; in another case, a disclaimer opinion was expressed by the auditors for both years of the biennium; in yet another case, the auditors expressed a qualified opinion for 2002 and then a disclaimer opinion for 2003. Other qualified opinions expressed for 2002 concerned projects closed in 2003 or for which audit reports had not yet been submitted by May 2004.

102. In the case of qualified audit reports or disclaimers on nationally executed expenditure, the Office has neither undertaken action for the recovery of advances nor adjusted the corresponding expenditure reported by UNDP. This requires the concurrence of relevant Governments through UNDP, which certifies the relevant financial reports.

103. After the Board's audit, the Office planned to include appropriate modalities in the revised working arrangement it had been trying for two years to sign with UNDP, in order to facilitate the recovery of advances made to Governments. In case of alleged misappropriation of funds, the Office would now hold responsible individuals accountable and prosecute them in accordance with national law where appropriate.

104. **The Board encourages the United Nations Office on Drugs and Crime to act upon qualified audit reports and reported misuse of funds relating to nationally executed expenditure.**

3. Management instructions to the field

105. In 2002-2003, the Board found shortcomings in financial management in four field offices (Brazil, Egypt, Uzbekistan and Viet Nam). Weaknesses in the safekeeping of assets (cash and non-expendable property) were also observed in several field offices. Most of them related to a lack of guidance on essential financial rules or processes provided to field officers.

Table 5
Basic shortcomings identified in United Nations Office on Drugs and Crime field offices visited in 2002-2003

Area of control	*Shortcoming identified in the safekeeping of assets*	*Offices concerned*
Petty cash	No formal designation of custodian	3
	Absence of cash book; no daily recording of transactions	2
	No surprise cash counts	4
Non-expendable property	Items not tagged	2
	No consolidated inventory of project equipment	4
	No regular and systematic physical inventory	2

106. **The Board expresses special concern on shortcomings observed relating to cash and bank account management and recommends that the United Nations Office on Drugs and Crime update and extend management instructions, such as on cash or inventory management.**

107. In April 2004, several such instructions were in draft form and were planned for issuance by June 2004.

4. Field financial reporting

108. Field offices have been using different tables or databases to follow up on office and project expenditure. No standard practice of accounting for support and project expenditure was observed. Some offices would distribute the cost of premises, drivers and finance assistants among available projects or funds using an ad hoc ratio, often not supported by rational elements, while others would charge all costs to the office support budget.

109. Project staff costs were sometimes charged to unrelated projects.

110. **The United Nations Office on Drugs and Crime agreed with the Board's recommendation: (a) to standardize field office accounting practices; (b) to streamline its support and project expenditure monitoring; and (c) to enter support or programme expenditure under the appropriate lines of financial statements.**

5. Information and communication technology

111. The United Nations Office on Drugs and Crime rolled out in March 2001 its new information system, ProFi. The first phase of this large-scale project was aimed at providing a reliable and adequate accounting application, including reports to donors on the financial status of projects and funding. The second phase of ProFi was to computerize activity management and reporting functionalities. In paragraphs 83 and 84 of its previous report,[2] the Board identified data discrepancies between the then-existing system and ProFi and recommended that the latter should not replace the former before full consistency had been attained.

112. During every interim audit throughout 2002 and 2003, the Office was invited to identify the source of discrepancies and to take action before the December 2003 closure so that the possible lack of reliability of the system could be anticipated. It was to perform a test closure by 30 June 2003, but did not do so. Furthermore, the Office informed its governing body, the Commission on Narcotic Drugs, in its consolidated budget for 2004-2005, that the Board had endorsed the closure of accounts for the Fund of UNDCP as of December 2002.[9] The Office concurred that its statement was not accurate and regretted the error.

113. As a consequence of the absence of test closure in June 2003, the Board was not in a position to audit the reliability of the interface between ProFi and other sources of accounting data. The review of the accounts was performed using Integrated Management Information System figures and financial information reported from other agencies, such as UNDP. In this respect, part of the benefit of the investment in ProFi had been lost so far.

6. Human resource management

Rotation policy

114. In 2003, the United Nations Office on Drugs and Crime had 58 staff members on field assignment. It drafted a provisional rotation policy in 1995, based on the need for greater staff mobility. Rotational posts were defined, to be subject to

[9] See E/CN.7/2003/20/Add.1, annex XII, para. 2.

regular reassignment. The standard length of assignment was set at four years, or three years for the duty stations with very difficult conditions, classified as D and E duty stations by the International Civil Service Commission. A balanced mix was to be reached, with no more than three successive field assignments, or two for difficult duty stations. This policy was never finalized.

115. Table 6 shows that by the end of 2002, more than one third of the 21 field representatives had been in place for durations of 4 to 6.6 years.

Table 6
Duration of current field representative assignments of at least four years as at 31 December 2002

Country	*Classification of duty station*	*Date of appointment of representative*	*Assignment length (years)*
A	B	June 1996	6.6
B	B	June 1996	6.6
C	A	September 1996	6.3
D	A	May 1997	5.7
E	B	August 1997	5.4
F	C	February 1998	4.9
G	A	March 1998	4.8
H	B	January 1999	4.0

116. The Board noted that this came at a price in terms of alternating headquarters and field experience with a view to improving the overall performance of the institution. The United Nations Office at Vienna and the United Nations Office on Drugs and Crime reviewed the issue in 2003 and implemented the rotation policy, initially planned for implementation in 1995, with a pilot exercise in which seven staff members rotated between field offices, five from headquarters to the field and two from the field to headquarters. In April 2004 it was too early to assess the qualitative impact on the United Nations Office on Drugs and Crime.

7. Fraud and presumptive fraud

117. During the biennium 2002-2003, no case of fraud or presumptive fraud was reported. The United Nations Office on Drugs and Crime follows Office of Internal Oversight Services guidelines on the detection, reporting and solving of fraud cases and seeks its advice on these issues.

118. The United Nations Office on Drugs and Crime drafted a management instruction on oversight and compliance for all field offices, which was to be issued in May 2004. A compliance officer has been appointed for both the United Nations Office at Vienna and the United Nations Office on Drugs and Crime, with the mandate to guarantee sound management practices and compliance with rules and regulations, management instructions and guidelines.

E. Acknowledgement

119. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Director.

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

(*Signed*) Guillermo N. **Carague**
Chairman, Philippine Commission on Audit

(*Signed*) François **Logerot**
First President of the Court of Accounts of France

9 July 2004

Note: The members of the Board of Auditors have signed only the original English version of the report.

Annex

Summary of status of implementation of recommendations for the financial period ended 31 December 2001[a]

Topic	*Implemented*	*Under implementation*	*Not implemented*	*Total*	*Reference in the present report*
Budgetary and accounting	Para. 48	-	Para. 25	2	
Project management and implementation	Para. 23	Para. 52	-	2	Paras. 77, 96 and 104
Unliquidated obligations	-	Para. 37	-	1	Para. 42
Liabilities	-	-	Para. 20	1	Paras. 19, 44 and 59
Information and communication technology	-	Para. 84	-	1	Para. 111
Non-expendable property	Para. 54	-	-	1	Paras. 64, 66 and 105
Nationally executed expenditure	-	Paras. 69, 74 and 76	-	3	Para. 91
Support structure	Para. 58	Paras. 16 and 42	-	3	Paras. 17, 25, 28, 35-41, 70 and 108
Total					
Number	**4**	**8**	**2**	**14**	
Percentage	**29**	**57**	**14**	**100**	

[a] See *Official Records of the General Assembly, Fifty-seventh Session, Supplement No. 5I* and corrigendum (A/57/5/Add.9 and Corr.1), chap. II.

Chapter III
Audit opinion

We have audited the accompanying financial statements of the Fund of the United Nations International Drug Control Programme, comprising statements I to III and the supporting notes for the biennium ended 31 December 2003. The financial statements are the responsibility of the Secretary-General. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency and in conformity with the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examination, on a test basis and as considered by the auditor to be necessary in the circumstances, of evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Secretary-General, as well as an evaluation of the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for the audit opinion.

In our opinion, these financial statements present fairly, in all material respects, the financial position as at 31 December 2003 and the results of operations and cash flows for the period then ended in accordance with the United Nations International Drug Control Programme's accounting policies, as set out in note 2 to the financial statements, which were applied on a basis consistent with that of the preceding financial period.

Without qualifying our opinion stated above, we draw attention to the lack of procedures ensuring completeness and timeliness in the recording of field obligations.

Furthermore, in our opinion, the transactions of the United Nations International Drug Control Programme that have come to our notice or that we have tested as part of our audit have in all other significant respects been in accordance with the Financial Regulations and Rules and legislative authority.

In accordance with article VII of the Financial Regulations, we have also issued a long-form report on our audit of the financial statements of the United Nations International Drug Control Programme.

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

(*Signed*) Guillermo N. **Carague**
Chairman, Philippine Commission on Audit

(*Signed*) François **Logerot**
First President of the Court of Accounts of France

9 July 2004

Note: The members of the Board of Auditors have signed only the original English version of the audit opinion.

Chapter IV
Certification of the financial statements

7 May 2004

I certify that the appended financial statements of the Fund of the United Nations International Drug Control Programme, numbered I to III, the notes and the supporting schedules are correct based on our records and certified reports from other executing agencies.

(*Signed*) Antonio Maria Costa
Executive Director
United Nations Office on Drugs and Crime

Chapter V

Financial statements for the biennium ended 31 December 2003

Abbreviations used in the financial statements

ACFR	Association of Casa Famiglia Rosetta
AU	African Union
CAMH	Centre for Addiction and Mental Health
CCLEC	Caribbean Customs Law Enforcement Council
CICP	Centre for International Crime Prevention (subsumed under UNODC effective 15 March 2004 (see ST/SGB/2004/6))
CIJ	Centros de Integración Juvenil
DESA	Department for Economic and Social Affairs
ECSWPR	European Center for Social Welfare Policy and Research
ESCAP	Economic and Social Commission for Asia and the Pacific
FAO	Food and Agriculture Organization of the United Nations
GILEAD	Gilead Church
ICPO (Interpol)	International Criminal Police Organization (Interpol)
IFND	International Federation of NGO against Drug Abuse
ILO	International Labour Organization
IMO	International Maritime Organization
NCA	Norwegian Church Aid
NGO/CONS	Non-governmental Organizations Consortium
OAU	Organization of African Unity
PROFA	Asociación Dominicana Pro-Bienestar de la Familia
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNDCP	United Nations International Drug Control Programme
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNICEF	United Nations International Children's Fund
UNICRI	United Nations Interregional Crime and Justice Research Institute
UNIDO	United Nations Industrial Development Organization

UNOPS	United Nations Office for Project Services
UPU	Universal Postal Union
WC	World Concern
WCO	World Customs Organization
WHO	World Health Organization
WSB	World Scout Bureau

Statement I
Income, expenditure and changes in fund balances for the biennium 2002-2003

(United States dollars)

	Note	*General-purpose: support* a	*General-purpose: programme* b	*Special-purpose: programme* c	*Total* d=(a+b+c)	*Total 2000-2001*
Income						
Voluntary contributions (schedule 1)	2 (f)	24 628 587	4 020 147	83 775 993	112 424 727	91 954 776
Cost-sharing contributions (schedule 1)		-	-	30 979 972	30 979 972	30 300 416
Support cost income (schedule 3)	2 (m)	7 221 700	-	-	7 221 700	7 206 999
Public donations	5	-	-	2 479 857	2 479 857	1 303 867
Interest income	6	-	3 574 688	1 475 527	5 050 215	9,472,198
Miscellaneous income	7	1 130 064	-	-	1 130 064	19 416
Consolidation elimination:						
Support cost income	2 (m)	(7 221 700)	-	-	(7 221 700)	(7 206 999)
Total income		**25 758 651**	**7 594 835**	**118 711 349**	**152 064 835**	**133 050 673**
Expenditure						
Programme budget (schedule 2)		-	4 793 405	97 502 246	102 295 651	110 229 799
Programme support cost:						
Agencies (schedule 3)		-	32 363	2 620 440	2 652 803	3 557 493
UNDCP (schedule 3)		-	301 271	6 920 429	7 221 700	7 206 999
Biennial support budget (schedule 4)		32,679,080	-	280 000	32 959 080	33 175 057
Consolidation elimination:						
Support cost charges	2 (m)	(6 920 429)	(301 271)	-	(7 221 700)	(7 206 999)
Total expenditure		**25 758 651**	**4 825 768**	**107 323 115**	**137 907 534**	**146 962 349**
Excess of income over expenditure		-	2 769 067	11 388 234	14 157 301	(13 911 676)
Other changes in fund balances:						
Savings on prior year's obligations		-	610 502	73 662	684 164	754 552
Refund to donors	2 (n)	-	-	(2 808 670)	(2 808 670)	(347,129)
Prior period adjustment	3	-	(940 942)	-	(940 942)	-
Inter-fund adjustments	8	-	176 260	(176 260)	-	-
Net change in provisions	9	-	16 175	256 946	273 121	(346 369)
Extraordinary charges	10	-	(1 496 880)	(148 587)	(1 645 467)	-
Net changes in fund balances		-	1 134 182	8 585 325	9 719 507	(13 850 622)
Fund balances, 1 January		-	9 834 961	43 586 459	53 421 420	67 272 042
Fund balances, 31 December 2003	**11**	-	**10 969 143**	**52 171 784**	**63 140 927**	**53 421 420**

Statement II
Assets, liabilities and reserves and fund balances as at 31 December 2003

(United States dollars)

	Note	General-purpose	Special-purpose	Total	Total 2001
Assets					
Cash and term deposits	12	3 501 535	5 599 731	9 101 266	13 500 264
Investments	13	22 211 406	35 542 096	57 753 502	48 851 465
Accounts receivable:					
Voluntary contributions receivable	3	-	-	-	940 942
Accrued interest		596 057	-	596 057	12,578
Other accounts receivable and deferred charges	14	432,013	-	432 013	462 884
Other assets:					
Operating funds advanced to executing agencies (schedule 5)		453 222	14 467 529	14 920 751	12 107 774
Total assets		**27 194 233**	**55 609 356**	**82 803 589**	**75 875 907**
Liabilities					
Unliquidated obligations	15	720 844	3 117 369	3 838 213	5 176 015
Accounts payable:					
Due to United Nations General Fund		354,298	-	354 298	33 054
Other accounts payable	16	3 149 948	148 587	3 298 535	1 827 144
Other liabilities:					
Operating funds due to executing agencies (schedule 5)		-	171 616	171 616	3 418 274
Total liabilities		**4 225 090**	**3 437 572**	**7 662 662**	**10 454 487**
Reserves and fund balances					
Reserves					
Operational reserve	17	12 000 000	-	12 000 000	12 000 000
		12 000 000	-	12 000 000	12 000 000
Fund balances					
Ongoing support and project commitments	11	10 969 143	52,171,784	63 140 927	53 421 420
	18	10 969 143	52 171 784	63 140 927	53 421 420
Total reserves and fund balances		**22 969 143**	**52 171 784**	**75 140 927**	**65 421 420**
Total liabilities and fund balances		**27 194 233**	**55 609 356**	**82 803 589**	**75 875 907**

Statement III
Cash flow for the biennium 2002-2003

(United States dollars)

	General-purpose	*Special-purpose*	*Total*	*Total 2000-2001*
Cash flows from operating activities				
Net excess (shortfall) of income over expenditure	2 769 067	11 388 234	14 157 301	(13 911 676)
Decrease/(increase) in net operating funds advanced to executing agencies	2 884 414	(8 944 049)	(6 059 635)	(7 775 270)
Decrease/(increase) in contributions receivable	940 942	-	940 942	128,886
Decrease/(increase) in other accounts receivable	30 871	-	30 871	479 767
(Decrease)/increase in unliquidated obligations	(72 856)	(1 264 946)	(1 337 802)	(10 101 808)
Increase/(decrease) in other accounts payable	1 579 750	(108 359)	1 471 391	(412 240)
Less: interest income	(3 574 688)	(1 475 527)	(5 050 215)	(9 472 198)
Net cash (outflow) from operating activities	**4 557 500**	**(404 647)**	**4 152 853**	**(41 064 539)**
Cash flows from investing activities				
Increase/(decrease) in amount due to United Nations general fund	321 244	-	321 244	(702,094)
(Increase) Decrease in accrued interest	(583 479)	-	(583 479)	736,046
Add: Interest income	3 574 688	1 475 527	5 050 215	9 472 198
Net cash inflow from investing activities	**3 312 453**	**1 475 527**	**4 787 980**	**9 506 150**
Cash flows from other sources				
Savings on prior biennium's obligations	610 502	73 662	684 164	754,552
Refund to donors	-	(2 808 670)	(2 808 670)	(347 129)
Prior period adjustment	(940 942)	-	(940 942)	-
Inter-fund adjustments	176 260	(176 260)	-	-
Decrease (Increase) in provisions	(1 480 705)	108 359	(1 372 346)	(346,369)
Net cash (outflow) from other sources	**(1 634 885)**	**(2 802 909)**	**(4 437 794)**	**61,054**
Net increase (decrease) in cash, term deposits and investments	**6 235 068**	**(1 732 029)**	**4 503 039**	**(31 497 335)**
Cash and term deposits, 1 January 2002	**19 477 873**	**42 873 856**	**62 351 729**	**93 849 064**
Cash, term deposits and investments, 31 December 2003	**25 712 941**	**41 141 827**	**66 854 768**	**62 351 729**

Schedule 1
Voluntary contributions for the biennium 2002-2003
(United States dollars)

	Income			Pledges				
Contributor	General-purpose a	Special-purpose b	Total c = (a + b)	Outstanding 1 January 2002 d	Pledges made in 2002-2003 e	Collections in 2002-2003 f = c	Adjustment for exchange rate fluctuations[a] g	Outstanding 31 December 2003 h = (d+e+f+g)
Australia	424 560	1 688 660	2 113 220	-	3 101 705	(2 113 220)	-	988 485
Austria	1 100 084	1 726 554	2 826 638	595 686	2 230 952	(2 826 638)	-	-
Bahamas	2 980	-	2 980	1 000	1 980	(2 980)	-	-
Bangladesh	2 000	-	2 000	1 000	2 000	(2 000)	-	1 000
Barbados	1 000	-	1 000	-	1 000	(1 000)	-	-
Belgium	178 343	-	178 343	-	385 486	(178 343)	-	207 143
Bolivia	-	-	-	4 000	5 000	-	-	9 000
Cameroon	-	-	-	1 358	-	-	545	1 903
Canada	1 047 263	1 240 534	2 287 797	949 367	2 097 582	(2 287 797)	42 373	801 525
China	109 547	-	109 547	14 933	94 614	(109 547)	-	-
Colombia	-	-	-	-	-	-	-	-
Czech Republic	66 635	132 657	199 292	-	199 292	(199 292)	-	-
Denmark[b]	-	212 589	212 589	-	876 156	(212 589)	-	663 567
Egypt	-	-	-	1 000	1 000	-	-	2 000
European Commission	-	3 108 681	3 108 681	7 566 867	2 683 361	(3 108 681)	2 929 474	10 071 021
Finland	291 588	869 873	1 161 461	465 000	1 317 035	(1 161 461)	39 848	660 422
France	1 066 551	2 349 138	3 415 689	-	3 415 689	(3 415 689)	-	-
Germany	1 228 140	3 491 745	4 719 885	668 276	4 387 953	(4 719 885)	223 714	560 058
Greece	77 061	-	77 061	-	77 061	(77 061)	-	-
Hungary[c]	-	69 477	69 477	-	69 477	(69 477)		-
India	119 952	-	119 952	60 000	120 000	(119 952)	(48)	60 000
Ireland	443 026	625 622	1 068 648	-	1 068 648	(1 068 648)	-	-
Israel	10 000	-	10 000	-	10 000	(10 000)		-
Italy	8 293 355	15 401 945	23 695 300	-	23 695 300	(23 695 300)	-	-
Japan	3 076 520	3 000 000	6 076 520	-	8 076 520	(6 076 520)	-	2 000 000
Kuwait	10 000	-	10 000	15 000	5 000	(10 000)	-	10 000
Lao People's Democratic Republic	1 983	-	1 983	1 000	1 991	(1 983)	(8)	1 000

Contributor	Income			Pledges				
	General-purpose *a*	*Special-purpose* *b*	*Total* *c = (a + b)*	*Outstanding 1 January 2002* *d*	*Pledges made in 2002-2003* *e*	*Collections in 2002-2003* *f = c*	*Adjustment for exchange rate fluctuations*[a] *g*	*Outstanding 31 December 2003* *h = (d+e+f+g)*
Lebanon	-	-	-	5 000	(5 000)	-	-	-
Liechtenstein	-	60 000	60 000	-	60 000	(60 000)	-	-
Luxembourg	213 274	1 138 090	1 351 364	710 600	1 631 872	(1 351 364)	132 486	1 123 594
Malaysia	40 000	-	40 000	20 000	20 000	(40 000)	-	-
Malta	251	-	251	-	251	(251)		-
Mexico	200 000	-	200 000	-	200 000	(200 000)	-	-
Monaco	20 000	-	20 000	-	20 000	(20 000)	-	-
Morocco	2 975	-	2 975	3 000	6 000	(2 975)	(25)	6 000
Netherlands	1 084 599	607 957	1 692 556	-	1 708 970	(1 692 556)		16 414
New Zealand	97 742	-	97 742	-	97 742	(97 742)	-	-
Norway	2 927 883	4 249 646	7 177 529	2 931 591	4 556 187	(7 177 529)	67 675	377 924
Pakistan	2 052	-	2 052	-	2 052	(2 052)	-	-
Panama	3 000	-	3 000	-	3 000	(3 000)	-	-
Portugal	75 000	-	75 000	-	75 000	(75 000)	-	-
Republic of Korea	250 000	-	250 000	100 000	150 000	(250 000)	-	-
Romania	-	-	-	71	(71)	-	-	-
Russian Federation	110 000	890 000	1 000 000	-	1 000 000	(1 000 000)	-	-
Saudi Arabia	100 000	-	100 000	-	100 000	(100 000)	-	-
Singapore	10 000	-	10 000	-	10 000	(10 000)	-	-
Slovakia	-	28 802	28 802	-	28 802	(28 802)	-	-
Slovenia	-	-	-	960	-	-	303	1 263
South Africa	1 359	20 000	21 359	-	21 359	(21 359)	-	-
Spain	384 282	1 229 312	1 613 594	-	1 613 594	(1 613 594)	-	-
Sri Lanka	10 000	-	10 000	-	10 000	(10 000)	-	-
Sweden	2 291 898	6 859 944	9 151 842	281 688	8 821 475	(9 151 842)	48 679	-
Switzerland	289 366	496 613	785 979	60 606	790 978	(785 979)	14 395	80 000
Thailand	30 000	20 000	50 000	-	50 000	(50 000)	-	-
Tunisia	4 465	-	4 465	-	4 465	(4 465)	-	-
Turkey	450 000	300 000	750 000	250 000	500 000	(750 000)	-	-

Contributor	Income: General-purpose a	Income: Special-purpose b	Income: Total c = (a + b)	Pledges: Outstanding 1 January 2002 d	Pledges: Pledges made in 2002-2003 e	Pledges: Collections in 2002-2003 f = c	Pledges: Adjustment for exchange rate fluctuations[a] g	Pledges: Outstanding 31 December 2003 h = (d+e+f+g)
United Kingdom of Great Britain and Northern Ireland	-	10 593 377	10 593 377	1 131 400	12 108 116	(10 593 377)	173 843	2 819 982
United States of America	2 500 000	23 349 777	25 849 777	35 019 267	38 011 435	(25 849 777)	-	47 180 925
Venezuela	-	-	-	10 000	10 000	-		20 000
Viet Nam	-	15 000	15 000	-	15 000	(15 000)	-	-
Total voluntary	**28 648 734**	**83 775 993**	**112 424 727**	**50 868 670**	**125 546 029**	**(112 424 727)**	**3 673 254**	**67 663 226**
Cost-sharing								
Antigua and Barbuda	-	104 275	104 275	60 000	163 850	(104 275)	-	119 575
Bolivia	-	434 686	434 686	667 059	-	(434 686)	(1 545)	230 828
Brazil	-	19 952 400	19 952 400	20 988 965	13 608 360	(19 952 400)	-	14 644 925
Colombia	-	1 021 583	1 021 583	1 464 295	116 423	(1 021 583)	-	559 135
Dominican Republic	-	100 000	100 000	100 000	-	(100 000)	-	-
Libyan Arab Jamahiriya	-	2 183 081	2 183 081	-	2 183 081	(2 183 081)	-	-
Nigeria	-	1 966 219	1 966 219	-	1 966 219	(1 966 219)		-
Peru	-	1 391 775	1 391 775	52 480	2 982 396	(1 391 775)	(279)	1 642 822
UNAIDS	-	3 825 953	3 825 953	238 080	3 729 373	(3 825 953)	-	141 500
Total cost-sharing	**-**	**30 979 972**	**30 979 972**	**23 570 879**	**24 749 702**	**(30 979 972)**	**(1 824)**	**17 338 785**

[a] For pledges made in currencies other than United States dollars, adjustment for exchange rate fluctuations include changes in pledge values on collection and on revaluation of outstanding pledges.

[b] Represents pledges made by the Embassies of Denmark in Egypt and Viet Nam earmarked for projects in the respective countries.

[c] Pledges and collections in 2003 represent a voluntary contribution for 2004 earmarked for drug programme activities in the regions of Central, South-Eastern and Eastern Europe.

Schedule 2

Programme budget for the biennium 2002-2003

(United States dollars)

Activity	General-purpose			Special-purpose			Total		
	Budget 2002-2003	Expenditure 2002-2003	Balance	Budget 2002-2003	Expenditure 2002-2003	Balance	Budget 2002-2003	Expenditure 2002-2003	Balance
By sector									
A. Core programme									
1. Global challenges									
Prevention and reduction of drug abuse	241 900	274 800	(32 900)	1 518 100	1 446 888	71 212	1 760 000	1 721 688	38 312
Illicit crop monitoring	-	-	-	595 500	626 157	(30 657)	595 500	626 157	(30 657)
2. Anti-trafficking									
Suppression of illicit drug trafficking	90 000	88 500	1 500	669 000	638 128	30 872	759 000	726 628	32 372
3. Rule of law									
Anti-money-laundering	92 000	135 619	(43 619)	2 418 000	2 027 928	390 072	2 510 000	2 163 547	346 453
Other core programmes[a]	2 234 000	2 619 218	(385 218)	2 396 900	2 122 941	273 959	4 630 900	4 742 159	(111 259)
Total, A	**2 657 900**	**3 118 137**	**(460 237)**	**7 597 500**	**6 862 042**	**735 458**	**10 255 400**	**9 980 179**	**275 221**
B. Technical cooperation programme									
1. Global challenges									
Prevention and reduction of drug abuse	348 100	324 323	23 777	30 212 300	35 011 646	(4 799 346)	30 560 400	35 335 969	(4 775 569)
Illicit crop monitoring	145 300	141 613	3 687	391 600	399 051	(7 451)	536 900	540 664	(3 764)
Alternative development	413 400	90 246	323 154	23 398 400	26 342 716	(2 944 316)	23 811 800	26 432 962	(2 621 162)
Total, 1	**906 800**	**556 182**	**350 618**	**54 002 300**	**61 753 413**	**(7 751 113)**	**54 909 100**	**62 309 595**	**(7 400 495)**
2. Anti-trafficking									
Suppression of illicit drug trafficking	2 268 100	1 009 761	1 258 339	32 508 000	23 298 227	9 209 773	34 776 100	24 307 988	10 468 112
3. Rule of law									
Policy support, legislation and advocacy	76 500	109 325	(32 825)	6 287 800	5 588 564	699 236	6 364 300	5 697 889	666 411
Total, B	**3 251 400**	**1 675 268**	**1 576 132**	**92 798 100**	**90 640 204**	**2 157 896**	**96 049 500**	**92 315 472**	**3 734 028**
Total, programme	**5 909 300**	**4 793 405**	**1 115 895**	**100 395 600**	**97 502 246**	**2 893 354**	**106 304 900**	**102 295 651**	**4 009 249**

Activity	General-purpose			Special-purpose			Total		
	Budget 2002-2003	Expenditure 2002-2003	Balance	Budget 2002-2003	Expenditure 2002-2003	Balance	Budget 2002-2003	Expenditure 2002-2003	Balance
By region									
A. Core programme									
Global	2 657 900	3 118 137	(460 237)	7 597 500	6 862 042	735 458	10 255 400	9 980 179	275 221
Total, A	**2 657 900**	**3 118 137**	**(460 237)**	**7 597 500**	**6 862 042**	**735 458**	**10 255 400**	**9 980 179**	**275 221**
B. Technical cooperation programme									
Global	26 100	26 099	1	3 045 000	2 501 681	543 319	3 071 100	2 527 780	543 320
Africa	512 500	47 831	464 669	7 168 500	7 856 093	(687 593)	7 681 000	7 903 924	(222 924)
Middle East	-	(2 942)	2 942	976 300	917 186	59 114	976 300	914 244	62 056
Eastern Europe	34 300	(5 500)	39 800	4 387 100	3 932 644	454 456	4 421 400	3 927 144	494 256
West and Central Asia	951 300	1 055 574	(104 274)	14 331 400	13 847 572	483 828	15 282 700	14 903 146	379 554
South Asia	162 300	187 599	(25 299)	1 704 100	1 347 920	356 180	1 866 400	1 535 519	330 881
East Asia and the Pacific	612 800	298 229	314 571	16 710 500	15 769 494	941 006	17 323 300	16 067 723	1 255 577
Latin America and the Caribbean	952 100	68 379	883 721	44 475 200	44 467 614	7 586	45 427 300	44 535 993	891 307
Total, B	**3 251 400**	**1 675 268**	**1 576 132**	**92 798 100**	**90 640 204**	**2 157 896**	**96 049 500**	**92 315 472**	**3 734 028**
Total, programme	**5 909 300**	**4 793 405**	**1 115 895**	**100 395 600**	**97 502 246**	**2 893 354**	**106 304 900**	**102 295 651**	**4 009 249**

[a] Research and analysis, laboratory and scientific services, legal advisory services, advocacy and information technology.

Schedule 3

Programme expenditure and programme support costs by executing agency and source of funds for the biennium 2002-2003

(United States dollars)

	Programme			*Programme support cost*									
				Agency				*UNDCP*				*Total*	
	General-purpose	*Special-purpose*	*Total*	*General-purpose*	*Special-purpose*	*Total*	*%*	*General-purpose*	*Special-purpose*	*Total*	*%*	*Amount*	*%*
A. UNDCP implementation													
UNDCP	4 429 895	46 668 185	51 098 080	19 876	564 402	584 278	*1.1*[a]	294 852	5 212 109	5 506 961	*10.8*	6 091 239	*11.9*
B. Agency implementation													
United Nations entities													
UNOPS	34 284	11 501 959	11 536 243	2 571	862 647	865 218	*7.5*	1 886	616 723	618 609	*5.4*	1 483 827	*12.9*
United Nations specialized agencies													
FAO	-	5 452 788	5 452 788	-	599 806	599 806	*11.0*	-	109 056	109 056	*2.0*	708 862	*13.0*
ILO	8 081	1 636 913	1 644 994	1 051	193 813	194 864	*11.8*	-	18 985	18 985	*1.2*	213 849	*13.0*
UNICEF	-	97 421	97 421	-	7 793	7 793	*8.0*	-	4 871	4 871	*5.0*	12 664	*13.0*
UNIDO	(32 887)	(48 690)	(81 577)	(1 480)	(2 191)	(3 671)	*4.5*	(2 796)	(4 138)	(6 934)	*8.5*	(10 605)	*13.0*
UPU	-	121 047	121 047	-	7 868	7 868	*6.5*	-	7 868	7 868	*6.5*	15 736	*13.0*
WHO	-	691 973	691 973	-	87 827	87 827	*12.7*	-	-	-	-	87 827	*12.7*
Intergovernmental organizations													
CCLEC	907	(1 571)	(664)	-	-	-	-	118	(204)	(86)	*13.0*	(86)	*13.0*
OAU	-	198 752	198 752	-	7 950	7 950	*4.0*	-	17 888	17 888	*9.0*	25 838	*13.0*
WCO	-	325 469	325 469	-	24 411	24 411	*7.5*	-	17 901	17 901	*5.5*	42 312	*13.0*
Non-governmental organizations													
CIJ	-	(2 261)	(2 261)	-	(68)	(68)	*3.0*	-	(226)	(226)	*10.0*	(294)	*13.0*
NCA	-	1 241 795	1 241 795	-	80 717	80 717	*6.5*	-	80 718	80 718	*6.5*	161 435	*13.0*
PROFA	-	34 143	34 143	-	1 024	1 024	*3.0*	-	3 414	3 414	*10.0*	4 438	*13.0*
WSB	-	28 685	28 685	-	2 295	2 295	*8.0*	-	1 434	1 434	*5.0*	3 729	*13.0*
Total B	**10 385**	**21 278 423**	**21 288 808**	**2 142**	**1 873 892**	**1 876 034**	***8.8***	**(792)**	**874 290**	**873 498**	***4.1***	**2 749 532**	***12.9***

	Programme			Programme support cost									
				Agency				UNDCP				Total	
	General-purpose	Special-purpose	Total	General-purpose	Special-purpose	Total	%	General-purpose	Special-purpose	Total	%	Amount	%
C. National implementation													
Government	353 125	29 555 638	29 908 762	10 345	182 146	192 491	0.6	7 211	834 030	841 241	2.8	1 033 732	3.5
Total C	**353 125**	**29 555 638**	**29 908 762**	**10 345**	**182 146**	**192 491**	**0.6**	**7 211**	**834 030**	**841 241**	**2.8**	**1 033 732**	**3.5**
Total A, B and C	**4 793 405**	**97 502 246**	**102 295 651**	**32 363**	**2 620 440**	**2 652 803**	**2.6**	**301 271**	**6 920 429**	**7 221 700**	**7.1**	**9 874 503**	**9.7**

[a] Projects executed by UNDCP field offices get some administrative assistance from UNDP. In some cases, therefore, a small percentage of support cost is shared with UNDP to compensate for its support.

Schedule 4

Biennial support budget for the biennium 2002-2003

(United States dollars)

Item	*Expenditure 2000-2001*	*Budget 2002-2003*	*Disbursements*	*Expenditure 2002-2003 unliquidated obligations*	*Total*	*Unencumbered balance 31 December 2003*
By appropriation line						
Programme support						
Country level	18 462 598	18 074 900	17 223 157	354 697	17 577 854	497 046
Headquarters	5 840 559	6 988 100	5 546 093	15 153	5 561 246	1 426 854
Subtotal	**24 303 157**	**25 063 000**	**22 769 250**	**369 850**	**23 139 100**	**1 923 900**
Management and administration	8 871 900	10 318 400	9 468 986	350 994	9 819 980	498 420
Total	**33 175 057**	**35 381 400**	**32 238 236**	**720 844**	**32 959 080**	**2 422 320**
By location						
Country level	18 462 598	18 074 900	17 223 157	354 697	17 577 854	497 046
Headquarters	14 712 459	17 306 500	15 015 079	366 147	15 381 226	1 925 274
Total	**33 175 057**	**35 381 400**	**32 238 236**	**720 844**	**32 959 080**	**2 422 320**
By object of expenditure						
Staff and other personnel costs	24 126 900	26 317 000	24 100 173	391 741	24 491 914	1 825 086
Travel	1 453 570	1 317 300	1 246 493	29 017	1 275 510	41 790
Contractual services	172 125	805 700	709 583	9 456	719 039	86 661
Operating expenses	4 059 579	3 254 800	3 026 276	27 269	3 053 545	201 255
Acquisitions	1 529 412	1 303 900	1 080 159	53 301	1 133 460	170 440
Fellowships, grants, other	1 833 471	2 382 700	2 075 552	210 060	2 285 612	97 088
Total	**33 175 057**	**35 381 400**	**32 238 236**	**720 844**	**32 959 080**	**2 422 320**
By funding source						
Special-purpose funds (schedule 3 and note 2 (l))	6 056 759	7 679 300	7 200 429	-	7 200 429	478 871
General-purpose funds	27 118 298	27 702 100	25 037 807	720 844	25 758 651	1 943 449
Total	**33 175 057**	**35 381 400**	**32 238 236**	**720 844**	**32 959 080**	**2 422 320**

Schedule 5
Operating funds advanced to executing agencies as at 31 December 2003

(United States dollars)

Executing agencies	*Operating funds with agencies 1 January 2002 a*	*Advances b*	*Miscellaneous income c*	*Disbursements d*	*Operating funds with agencies 31 December 2003 a + b + c - d*	*Operating funds with agencies 31 December 2003 a + b + c - d*	*Operating funds due to agencies 31 December 2003 a + b + c - d*
United Nations entities							
CICP	14 783	-	-	-	14 783	14 783	-
DESA	37 393	(47 963)	10 570	-	-	-	-
ESCAP	2 794	(2 794)	-	-	-	-	-
UNDP/national	3 762 206	30 922 845	-	(30 101 253)	4 583 798	4 583 798	-
UNDP/other	4 376 733	38 124 026	-	(34 136 853)	8 363 906	8 363 906	-
UNDP/WA[a]	3 337 636	6 663 668	-	(9 548 082)	453 222	453 222	-
UNFPA	8 433	-	-	-	8 433	8 433	-
UNICEF	(69 150)	164 850	-	(105 213)	(9 513)	-	(9 513)
UNICRI	29 222	(29 222)	-	-	-	-	-
UNOPS	(2 472 338)	16 154 650	-	(13 000 883)	681 429	681 429	-
United Nations specialized agencies							
FAO	(141 374)	6 431 200	23 433	(6 052 594)	260 665	260 665	-
ILO	(468 063)	2 421 050	1 963	(1 839 858)	115 092	115 092	-
IMO	6 763	-	-	-	6 763	6 763	-
UNESCO	12 422	(12 422)	-	-	-	-	-
UNIDO	24 102	512 784	97 853	(634 739)	-	-	-
UPU	80 036	114 200	-	(128 915)	65 321	65 321	-
WHO	(251 566)	1 121 100	30 969	(936 005)	(35 502)	-	(35 502)
Intergovernmental organizations							
AU	119 856	143 246	-	(206 702)	56 400	56 400	-
CCLEC	9 762	13 973	(112)	(23 623)	-	-	-
ECSWPR	(45)	-	45	-	-	-	-
ICPO	7 773	(7 773)	-	-	-	-	-
WCO	4 270	397 550	425	(349 880)	52 365	52 365	-

Executing agencies	*Operating funds with agencies 1 January 2002* *a*	*Advances* *b*	*Miscellaneous income* *c*	*Disbursements* *d*	*Operating funds with agencies 31 December 2003* *a + b + c - d*	*Operating funds with agencies 31 December 2003* *a + b + c - d*	*Operating funds due to agencies 31 December 2003* *a + b + c - d*
Non-governmental organizations							
ACFR	(1 199)	1 199	-	-	-	-	-
CAMH	(14 241)	-	-	-	(14 241)	-	(14 241)
NGO/CONS	-	1 500	(1 500)	-	-	-	-
GILEAD	175 080	-	-	-	175 080	175 080	-
IFND	86 643	(16 175)	-	-	70 468	70 468	-
NCA	(298)	1 210 450	-	(1 322 512)	(112 360)	-	(112 360)
PROFA	-	36 950	-	(35 167)	1 783	1 783	-
WC	99	-	-	-	99	99	-
WSB	11 768	31 650	(1 294)	(30 980)	11 144	11 144	-
Total	**8 689 500**	**104 350 542**	**162 352**	**(98 453 259)**	**14 920 751**	**14 920 751**	**(171 616)**

[a] WA = working arrangement.

Notes to the financial statements

Note 1
Statement of aims

The United Nations Office on Drugs and Crime aims to implement the Organization's drug programme and crime programme in an integrated manner, addressing the interrelated issues of drug control, crime prevention and international terrorism in the context of sustainable development and human security. Through its drug programme, the Office serves as the central drug control entity with exclusive responsibility for coordinating and providing effective leadership for all United Nations drug control activities and serves as the repository of technical expertise in international drug control for the Secretariat of the United Nations, including its regional commissions, and other United Nations organs, as well as Member States, and in this capacity advises them on questions of international and national drug control. The Fund of the United Nations International Drug Control Programme supports technical cooperation programmes and projects in the field of drug control.

Note 2
Accounting policies

The significant accounting policies of the Fund of the United Nations International Drug Control Programme are set out below:

(a) *Rules and procedures*. The accounts of the Fund are maintained in accordance with the Financial Regulations of the United Nations, its own Financial Rules and in conformity with the United Nations system common accounting standards (A/48/530, annex) as recognized by the General Assembly in its resolution 48/216 C of 23 December 1993 and subsequent revisions;

(b) *Accounting convention*. The accounts are prepared on a historical cost basis, modified to the extent that the cost of all property acquired is charged as an expense in the year of purchase. The financial period is a biennium and consists of two consecutive calendar years;

(c) *Contingent liabilities*. The United Nations accounting standard on end-of-service benefits (and post-retirement benefits) requires that liabilities in respect of the above should be provided for in the accounts to the extent required by the financial policies of the Organization. In so far as such liabilities are not fully provided for, appropriate disclosure should be made in the notes to the financial statements and the total estimated liabilities quantified where possible.

The Fund has not specifically recognized liabilities for after-service health insurance costs, which will be owed when staff members leave the Organization. Such payments are budgeted for in the support budget and in the programme budget, and the actual costs incurred in each financial period are reported as current expenditures. In order to obtain a better understanding of the financial magnitude of the Organization's liability, further assessment was made of post-retirement health insurance for the biennium 2002-2003. A valuation was made of the post-retirement health insurance costs to be borne by the Organization under the support budget as at 31 December 2003, for all current retirees participating in the scheme and active employees eligible to join the scheme on that date. A contingency of $1,302,360,

representing the present value of the costs that would be incurred by the Organization as at 31 December 2003, is shown under note 17 (Operational reserve).

The separation from service of staff members under the Fund is in accordance with United Nations Staff Rules, chapter IX (Separation from service). Separation benefits under the Rules cover terminal indemnity, repatriation grant, commutation of accrued annual leave up to a maximum of 60 days and other related expenses. Provision for repatriation grant entitlements is calculated on the basis of 8 per cent of net base pay for all personnel funded from the Fund (note 16). Under the Fund any contingent liabilities for project staff are budgeted for under the specific projects that those staff members are charged to. For all other separation entitlements not specifically provided for, a contingent amount was included in the operational reserve (note 17) on the basis of applying staff rule 109 for 203 posts authorized in the support budget for 2000-2001. As per the final support budget for 2002-2003, there were 192 authorized posts, of which 178 were encumbered as at 31 December 2003, in addition to 25 staff under general temporary assistance. A reassessment of end-of-service liabilities was made as at 31 December 2003. Regarding post-retirement benefits, the Fund participates in the United Nations Joint Staff Pension Fund (see note 20), in whose financial statements details of those benefits are disclosed;

(d) *Unliquidated obligations*. Unliquidated obligations are expenditures based on firm obligations entered into, but not disbursed, in the financial period. Unliquidated obligations for the current period in respect of all technical cooperation activities remain valid for 12 months following the end of the period to which they relate;

(e) *Special-purpose contributions*. Special-purpose contributions are recorded as income when received. For large special-purpose contributions received in advance, income is deferred to future periods as otherwise their exceptional size and nature would materially distort operational results and fund balances;

(f) *General-purpose contributions*. Until 2001, general-purpose contributions were recorded as income on the basis of written pledges. Effective 1 January 2002, general-purpose contributions are recorded as income when received in order to apply consistently the accounting policy on the recording of income in trust funds and to recognize all contributions income on a more prudent basis. The impact of this change in accounting policy on prior periods is shown in note 3 below;

(g) *Miscellaneous income*. Refunds of expenditures charged to prior financial periods, net gains on exchange and proceeds from the sale of surplus property are credited to miscellaneous income;

(h) *Interest income*. Interest income is based only on amounts received and accrued from cash, term deposits and investments relating to the financial period. Interest due from cash, term deposits and investments made in the financial period but not maturing until future periods is recorded as accounts receivable;

(i) *General-purpose and special-purpose funds*. General-purpose funds arise from income that is not earmarked for a specific purpose or project. They are used to fund the approved biennial support budget as well as those programme activities not funded by special-purpose funds. Special-purpose funds arise from income that is

earmarked either for specific programmes, projects or purposes within broader geographical and thematic sectors;

(j) *Cash and term deposits*. Funds on deposit in interest-bearing bank accounts, time deposits and call accounts that are immediately available or will be maturing within 12 months of the period end date are shown in note 12 separately from term deposits maturing after 12 months of the period end date. All term deposits are placed in line with the United Nations investment policies and guidelines;

(k) *Investments*. In line with United Nations investment policies and guidelines temporary surpluses are placed in securities such as triple AAA-rated bonds or notes based on cash-flow requirements and taking into account investment bids received at the time of placement. Since July 2000 surplus funds in excess of current needs are placed in the United Nations investment pool (for offices away from Headquarters) and managed through investment pooling. Details of these investments, shown at cost, are disclosed in note 13. Long-term investments with a book value of $27,413,514 had a market value of $27,395,800 as at 31 December 2003.

(l) *Translation of currencies*. The financial statements of the Fund are presented in United States dollars, which is the currency best suited to its operations. As per United Nations accounting standards, transactions in currencies other than United States dollars are recorded in United States dollars by applying the United Nations operational rate of exchange at the time of the transaction. The policy for translating balance sheet items maintained in other currencies is also in accordance with United Nations accounting standards. For monetary items (that is, money held and assets and liabilities and any other balances to be received or paid in fixed or determinable amounts of money) and non-monetary items carried at fair value, in accounts maintained in other currencies, the translation into United States dollars is done at the applicable United Nations rates of exchange in effect as at the date of the financial statements. Non-monetary items carried at historical cost in other currencies are translated using the United Nations operational rate of exchange at the date of the transaction. On the closing of the accounts at the end of each financial period, if the balance of the exchange accounts reflects a net loss on exchange, it is debited to the budgetary account. If there is a net gain, this is credited to miscellaneous income;

(m) *Programme support costs*. In accordance with United Nations practice and as authorized by its governing body, the Commission on Narcotic Drugs, the Fund charges a programme support rate of up to 13 per cent for programme and project execution. In case the programme or project is shared by the Fund and an associated agency, programme support charges are also accordingly shared between both organizations with a combined amount not exceeding 13 per cent. For nationally executed programmes and projects, a maximum of 5 per cent is charged for programme support. Programme support costs paid in the biennium to executing agencies under this arrangement are charged to programme expenditure in the financial statements as they constitute an outflow of funds from the organization. Programme support costs retained by the Fund under this arrangement are not charged to programme expenditure since they have been incurred under the biennial support budget. These are shown both as support cost income and support cost charges and are offset by a consolidation elimination (see statement I). Full details

of the amounts retained by the Fund are disclosed by funding source in schedule 3. The amount retained out of programme activities funded by special-purpose income, however, is shown as funding part of the support budget, being the effective recovery of those costs through the programme support arrangement and amounting to $6,920,429 for 2002-2003 ($6,056,759 for 2000-2001);

(n) *Refunds to donors*. In accordance with terms and conditions stipulated in funding agreements, donors are refunded amounts surplus to the requirements of specific projects that are completed.

Note 3
Prior period adjustment

As a result of the change in accounting policy in recognizing general-purpose income on a cash basis (see note 2, subparagraph (f), above), $940,942 of general-purpose pledges outstanding as at 1 January 2002 are reversed as a prior period adjustment to the fund balance that previously included this amount. The impact of this change in policy would also be to increase income of $91,954,776 from voluntary contributions reported for 2000-2001 by $160,514 to $92,115,290 as a basis of comparison with income of $112,424,727 from voluntary contributions reported for 2002-2003.

Note 4
Regular budget expenditure

The total expenditure of $137,907,534 in statement I does not include the following amounts for 2002-2003 financed from the regular budget of the United Nations (in United States dollars):

Expenditure	*2002-2003*	*2000-2001*
Staff and other personnel costs	14 769 268	11 623 119
Travel on official business	1 455 149	1 045 175
Contractual services	1 075 967	805 636
General operating expenses	318 941	236 233
Acquisitions	336 262	406 505
Fellowships, grants, others	47 922	87 608
Total	**18 003 509**	**14 444 890**

Note 5
Public donations

Public donations received in 2002-2003 amounted to (in United States dollars):

Donor	*2002-2003*	*2000-2001*
Caribbean Development Bank	-	64 883
Drug Abuse Prevention Centre, Japan	369 389	622 024
Financial Transactions and Reports Analysis Centre of Canada	232 883	-
Ford Foundation	-	35 000
Human Security Trust Fund	1 468 119	200 000
International Hospitality and Conference Service Association, Japan	100 000	-
Islamic Solidarity Fund	10 000	-
Lions Club, Japan	12 000	-
Lions Club, Luxembourg	23 096	-
Mr. Komuro, Japan	-	91 288
OPEC Fund	70 000	-
Organization of American States	-	190 951
UNDP China	42 750	-
UNDP Myanmar	151 620	-
UNICEF, Egypt	-	9 800
United Nations Association, Scotland	-	133
Universal Postal Union	-	49 988
World Food Programme	-	9 800
United Nations Office for the Coordination of Humanitarian Assistance to Afghanistan	-	30 000
Total	**2 479 857**	**1 303 867**

Note 6
Interest income

Total interest earned in 2002-2003 amounted to $5,050,215 ($9,472,198 in 2000-2001). Special-purpose and general-purpose funds are not invested separately. Until 1995, the total interest income from investments was apportioned between general-purpose and special-purpose funds in accordance with the ratio of their respective average fund balance. However, the amount of interest apportioned to the special-purpose fund needs to be assigned more precisely to the individual trust funds comprising the fund balance. In addition, not every trust fund agreement specifies a requirement to accrue interest or specially account for it. From 1996 onwards, therefore, where donor funding arrangements specifically require accruing interest or donors have otherwise indicated a requirement for an account of accumulated interest, the relevant special-purpose trust fund has been credited interest over the period of its use and on the balance outstanding at the end of 2003. On that basis, in 2002-2003, interest income of $1,475,527 is assigned to special-

purpose trust funds as per specific donor requirements. The balance of $3,574,688 interest earned for 2002-2003 is credited to the general-purpose fund.

Note 7
Miscellaneous income

Total miscellaneous income in 2002-2003 (in United States dollars) amounted to:

Miscellaneous income	*2002-2003*	*2000-2001*
Sale proceeds from drug identification kits	21 245	1 844
Net gain on exchange	918 490	17 572
Refund of prior year expenditure	190 329	-
Total	**1 130 064**	**19 416**

Note 8
Inter-fund adjustments

Adjustments between funds included (in United States dollars):

	General-purpose funds	*Special-purpose funds*
Prior year expenditure now charged to general-purpose funds as donors declined to fund project expenditure they had previously pledged from special-purpose funds	(38 442)	38 442
Recovery of general-purpose funds by absorption of prior year expenditure by special-purpose funds	214 702	(214 702)
Total	**176 260**	**(176 260)**

Note 9
Net change in provisions

A decrease of $273,121 in provisions is credited to net income for 2002-2003. This decrease is represented by the following changes in provisions, as shown in note 16 below, against known or potential liabilities:

(a) During the prior biennium, a provision of $256,946 was created out of fund balances for unspent project budget allocations covering 2000-2001. During 2002-2003, expenditures against those allocations were recorded and the provision was cleared;

(b) A provision of $261,723 made against operating fund balances with executing agencies that were deemed unlikely to be recovered at the end of 2001 has been reduced by the partial recovery of $16,175 to $245,548 at the end of December 2003.

Note 10
Extraordinary charges

Despite previously certified financial reports from UNDP, project and support budget accounts that are closed or do not have sufficient funds are now being charged retroactively by UNDP for $976,363 of previously unreported expenditure. Also, based on previously certified financial reports from UNDP, a number of nationally executed projects were closed by UNDCP with related funding reported as spent or, where unspent, returned to donors. However, $669,104 of operating funds previously advanced to Governments by UNDP are now being requested by UNDP to be charged to those closed projects. The United Nations Office on Drugs and Crime repeatedly informed UNDP during 2003, when these items were first disclosed by UNDP resulting from the introduction of changes in their accounting software, that such charges could only be accepted subject to necessary audit validation, legal clearance and fund availability as the Office was reluctant to entertain claims dating back several years during which it had relied on certified financial reports from UNDP. Accordingly, given the unusual reporting of these items, their materiality and the uncertainty related especially to their periodicity, they are classified separately as extraordinary charges against the general-purpose fund until this matter is resolved, as explained below.

As against these extraordinary charges totalling $1,645,467 ($976,363 in unreported expenditure and $669,104 in outstanding advances), which UNDP wishes to recover retroactively, UNDP is being requested, also retroactively, to account for potential interest losses estimated by the Fund at $1,714,943 on surplus cash balances UNDP has held since 1992 but on which it has never reported interest earned. Similarly, while UNDP now requires exchange losses included in the outstanding advances to be written off, it has not reported exchange gains on other outstanding project accounts. Therefore, as a matter of financial prudence, the total claim of UNDP amounting to $1,645,467 is being set aside as a provision (see note 16 below). Of this total claim, $148,587 is provided against available special-purpose funds and the balance $1,496,880 is provided out of the general-purpose fund. The counter-claim of $1,714,943 plus any unreported exchange gains are not credited to special- or general-purpose funds for the time being until all these suspense items are finally settled.

Note 11
Fund balances

Fund balances represent the unexpended resources of the Fund as at 31 December 2003. Net changes in those balances during 2002-2003 and future commitments against them are summarized below (in United States dollars):

Changes in fund balances	*General-purpose*	*Special-purpose*	*Total*
Total fund balance as at 1 January 2002	9 834 961	43 586 459	53 421 420
Net changes during 2002-2003 (statement I)	1 134 182	8 585 325	9 719 507
Total fund balance as at 31 December 2003	**10 969 143**	**52 171 784**	**63 140 927**
Ongoing support and project commitments	10 969 143	52 171 784	63 140 927
Balance as at 31 December 2003 available for future programme activities	-	-	-

Note 12
Cash and term deposits

Cash included (in United States dollars):

Cash and term deposits	*As at 31 December 2003*	*As at 31 December 2001*
Interest-bearing bank deposits (note 2, subparagraph (j))	9 101 266	13 500 264
Total	**9 101 266**	**13 500 264**

Note 13
Investments

Investments included (in United States dollars):

Investments	*As at 31 December 2003*	*As at 31 December 2001*
United Nations investment pool (for offices away from Headquarters) (note 2, subparagraph (k))	57 753 502	48 851 465
Total	**57 753 502**	**48 851 465**

Note 14
Other accounts receivable

Accounts receivable included (in United States dollars):

Accounts receivable	*As at 31 December 2003*	*As at 31 December 2001*
Education grant advances	214 145	371 248
Travel advances	8 594	-
Salary advances	36 525	34 369
Other receivables and deferred charges	172 749	57 267
Total	**432 013**	**462 884**

Note 15
Unliquidated obligations

Unliquidated obligations comprised the following (in United States dollars):

Unliquidated obligations	*As at 31 December 2003*	*As at 31 December 2001*
Programme budget		
Headquarters	1 087 470	828 533
Field-level	2 030 020	3 553 782
Biennial support budget		
Headquarters	720 844	793 700
Field-level	-	-
Total	**3 838 213**	**5 176 015**

At the field level, unliquidated obligations were reported by all executing and implementing agencies except UNDP, which has not maintained a system by which to record them. In compliance with the recommendation contained in paragraph 37 of the report of the Board of Auditors for the previous biennium (A/57/5/Add.9), the United Nations Office on Drugs and Crime requested its field offices to report, outside of the UNDP system, on unliquidated obligations as at 31 December 2003. A total of $761,764 ($661,110 for the programme budget and $100,654 for the support budget) was reported by the United Nations Office on Drugs and Crime field offices based on their records. Since this information is not included in the certified UNDP financial report, it is disclosed by way of note only and will be used as opening balances from 2004 onwards. UNDP has indicated that there will be a facility for obligations recording in Atlas, the new UNDP enterprise resource planning (ERP) system introduced on 1 January 2004. This will be applicable to United Nations Office on Drugs and Crime field office projects and their support budgets. However, obligations will only be recorded if UNDP provides the service. If the service has been performed outside the system, it will not be recorded. This will be done by the United Nations Office on Drugs and Crime from its supporting documents. Furthermore, UNDP will still not be able to report unliquidated obligations for government-executed projects because government accounting continues on a cash basis.

Note 16
Provisions and other accounts payable

Accounts payable included (in United States dollars):

Provisions and accounts payable	*As at 31 December 2003*	*As at 31 December 2001*
Provisions		
Provision for allocations (note 9)	-	256 946
Provision for operating balances with executing agencies that are unlikely to be recovered (note 9)	245 548	261 723
Provision for extraordinary charges claimed by UNDP that are kept in suspense (note 10)	1 645 467	-
Subtotal	**1 891 015**	**518 669**
Accounts payable		
Repatriation grant accruals (note 2, subparagraph (c))	1 128 657	831 780
Experts payroll and other field expenses	217 942	86 003
Miscellaneous	60 921	390 692
Subtotal	**1 407 520**	**1 308 475**
Total	**3 298 535**	**1 827 144**

Note 17
Operational reserve

Until 1995, an operating reserve of 15 per cent of annual expenditures (adjusted for programme support costs) was maintained, amounting to $9,486,700 (general-purpose: $3,446,200; special-purpose: $6,040,500) as at 31 December 1995. Upon the recommendation of the Advisory Committee on Administrative and Budgetary Questions, this arrangement was reviewed in 1996 and, in the light of actual reserve requirements, the Commission on Narcotic Drugs, as the governing body of the Fund, approved the creation instead of a consolidated reserve of $12 million ($11.5 million from the general-purpose fund balance and $0.5 million from the programme support reserve). The operational reserve level has been maintained at $12 million during 2002-2003 with no movement in the reserve.

The operational reserve is estimated to cover the following contingencies (in United States dollars):

Contingency	*Headquarters*	*Country operations*	*Total*
1. Staff separation cost estimates as per the accounting policy on contingent liabilities (note 2, subparagraph (c))	6 145 740	3 468 350	9 614 090
Less: Repatriation grant accruals already provided for (note 16)	(1 128 657)	-	(1 128 657)
Subtotal	**5 017 083**	**3 468 350**	**8 485 433**
2. After-service health insurance (note 2, subparagraph (c))	1 302 360	-	1 302 360
3. Balance to cover unforeseen shortfalls, uneven cash flows, unplanned costs and other final contingencies			2 212 207
Total			**12 000 000**

Note 18
Special-purpose fund balance

As per financial rule 6.5 of the Fund, special-purpose contributions to project activities are treated as funds held in trust. The application of these funds to specific project activities is reported separately to donors. The consolidated balance shown in statement II, therefore, consists of a series of trust funds. In some cases the balances are negative where expenditures exceed collections and any accrued interest. These negative balances have been funded out of the working capital as per financial rule 6.3 of the Fund and are covered by outstanding special-purpose pledges. The details of these negative balances are shown below:

Donor	*Projects involved*	*Fund balance*	*Value of outstanding pledges*
Bolivia	BOL/C23, D80	(91 689)	230 28
Brazil	BRA/E02	(578 279)	7 239 307
Canada	AFG/G26, CAR/G96, COL/C81, GLO/B79, GLO/C09, GLO/C54, GLO/E89, PER/D01, RAF/E15	(763 204)	801 525
Colombia	COL/426, 636, 926	(327 294)	559 135
European Commission	BHA/907, BGD/779-781, CAR/857, B16, B95, C34, C49, EGY/518, 751, 771, GLO/565, IND/808, LAO/866, LEB/763, 813, MOZ/C47, RAF/E13, E14, RAS/938, B38, RER/D41, C38, E88, RUS/F18, TRI/910	(4 329 715)	6 891 373
Finland	AFG/F98	(254 087)	374 531
Luxembourg	LAO/D35	(72 026)	374 531
OPEC Fund	BOL/D80	(2 596)	80 000
United Kingdom	RAS/D18	(196 439)	500 000
United States of America	AFG/G24, G26, G71, GLO/C93, KYR/G64, RAS/G53, RER/F23, TAJ/E24, TAJ/H03, TUK/F42, UZB/G28, UZB/H04	(886.033)	18 484 358
USAID	BOL/C23, E07, COL/F31	(1 716 457)	5 525 167
Total fund balance and related pledge totals		**(9 217 819)**	**41 060 755**

Note 19
Non-expendable inventory

In accordance with the accounting policy disclosed in note 2, subparagraph (b)), non-expendable equipment held by the Fund is not shown as an asset in the statement of assets and liabilities. As per inventory records, the purchase cost of inventory items as at 31 December 2003 was (in United States dollars):

Location of non-expendable equipment	*2003*	*2001*
Headquarters		
Project inventory	1 081 438	N/A[a]
Office inventory	968 395	N/A[a]
Subtotal	**2 049 833**	**2 240 605**
Country offices		
Project inventory	10 207 277	N/A[a]
Office inventory	2 106 921	N/A[a]
Subtotal	**12 314 198**	**2 531 816**
Total	**14 364 031**	**4 772 421**

[a] See the paragraph below for explanation.

The total non-expendable inventory of $14,364,031 as at 31 December 2003 is after deducting non-expendable write-offs during the year amounting to $84,066 as approved by the Property Survey Board at Headquarters and $581,436 for field offices through local UNDP office arrangements. The substantial increase in inventory value should be seen in view of the fact that in previous years most United Nations Office on Drugs and Crime field offices did not include project inventories but only office inventory figures.

Note 20
Disclosure as to participation in the United Nations Joint Staff Pension Fund

The United Nations Office on Drugs and Crime is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded defined benefit plan. The financial obligation of the Office to the Pension Fund consists of its mandated contribution at the rate established by the General Assembly together with its share of any actuarial deficiency payments that may become payable pursuant to article 36 of the Regulations of the United Nations Joint Staff Pension Fund.

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